

# **CITY OF DOWAGIAC**

Cass County, Michigan

## **FINANCIAL STATEMENTS**

September 30, 2008

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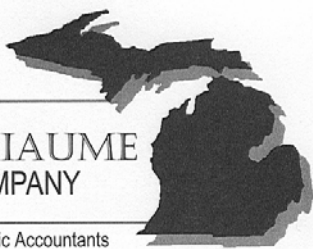
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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council  
City of Dowagiac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, Michigan as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dowagiac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2008 on our consideration of the City of Dowagiac's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dowagiac's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Berthiaume & Co.*

Saginaw, Michigan  
November 6, 2008

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# CITY OF DOWAGIAC

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Dowagiac's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the City's financial statements.

### Using this Annual Report:

This annual report consists of a series of financial statements. The full accrual statements include the statement of net assets and the statement of activities, which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### The City as a Whole:

The following table shows, in a condensed format, the net assets as of the current date compared to the prior year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
<b>Assets:</b>						
Other assets	\$ 5,738,278	\$ 5,568,691	\$ 6,051,694	\$ 6,040,560	\$11,789,972	\$11,609,251
Capital assets	<u>6,813,474</u>	<u>7,062,170</u>	<u>8,684,947</u>	<u>8,567,623</u>	<u>15,498,421</u>	<u>15,629,793</u>
Total assets	<u>12,551,752</u>	<u>12,630,861</u>	<u>14,736,641</u>	<u>14,608,183</u>	<u>27,288,393</u>	<u>27,239,044</u>
<b>Liabilities:</b>						
Other liabilities	1,960,016	1,873,806	837,337	593,587	2,797,353	2,467,393
Long-term liabilities	<u>2,660,746</u>	<u>2,773,851</u>	<u>1,607,527</u>	<u>1,669,656</u>	<u>4,268,273</u>	<u>4,443,507</u>
Total liabilities	<u>4,620,762</u>	<u>4,647,657</u>	<u>2,444,864</u>	<u>2,263,243</u>	<u>7,065,626</u>	<u>6,910,900</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	4,581,053	4,681,029	7,174,947	6,982,623	11,756,000	11,663,652
Restricted	938,238	991,443	1,203,033	1,060,325	2,141,271	2,051,768
Unrestricted	<u>2,411,699</u>	<u>2,310,732</u>	<u>3,913,797</u>	<u>4,301,992</u>	<u>6,325,496</u>	<u>6,612,724</u>
Total net assets	<u>\$ 7,930,990</u>	<u>\$ 7,983,204</u>	<u>\$12,291,777</u>	<u>\$12,344,940</u>	<u>\$20,222,767</u>	<u>\$20,328,144</u>

As of September 30, 2008, the City's combined net assets decreased less than 1 percent from a year ago, from \$20,328,144 to \$20,222,767. As we look at the governmental activities separately from the business-type activities, we can see that the each decreased minimally.

# CITY OF DOWAGIAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Unrestricted net assets of the governmental activities, the part of the net assets that can be used to finance day-to-day operations, increased by \$100,967 to \$2,411,699 or 47.08 percent of expenses.

The following table shows the changes in net assets during the current year:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 1,097,611	\$ 823,511	\$ 9,107,335	\$ 8,044,202	\$10,204,946	\$ 8,867,713
Operating grants	1,058,505	940,808	107,195	106,709	1,165,700	1,047,517
Capital grants	14,934	1,306,500	165,002	-	179,936	1,306,500
General revenues						
Property taxes	1,936,369	1,751,239	48,973	45,963	1,985,342	1,797,202
Franchise taxes	40,860	41,061	-	-	40,860	41,061
State revenue sharing	746,226	747,409	-	-	746,226	747,409
Investment earnings	152,684	353,744	163,137	200,334	315,821	554,078
Total revenues	<u>5,047,189</u>	<u>5,964,272</u>	<u>9,591,642</u>	<u>8,397,208</u>	<u>14,638,831</u>	<u>14,361,480</u>
<b>Program Expenses:</b>						
General government	1,646,986	1,565,434	-	-	1,646,986	1,565,434
Public safety	1,742,875	1,656,769	-	-	1,742,875	1,656,769
Public works	1,549,574	887,133	-	-	1,549,574	887,133
Health and welfare	-	-	-	-	-	-
Community and economic development	33,100	38,683	-	-	33,100	38,683
Recreation and culture	11,046	25,861	-	-	11,046	25,861
Interest on long-term debt	138,742	144,741	-	-	138,742	144,741
Electric	-	-	7,177,046	5,680,620	7,177,046	5,680,620
Sewer	-	-	1,480,290	1,662,340	1,480,290	1,662,340
Water	-	-	639,344	712,371	639,344	712,371
DART	-	-	221,019	203,588	221,019	203,588
Total program expenses	<u>5,122,323</u>	<u>4,318,621</u>	<u>9,517,699</u>	<u>8,258,919</u>	<u>14,640,022</u>	<u>12,577,540</u>
Increase in net assets before other items	<u>(75,134)</u>	<u>1,645,651</u>	<u>73,943</u>	<u>138,289</u>	<u>(1,191)</u>	<u>1,783,940</u>
<b>Other items:</b>						
Contributions to principal	9,120	10,313	-	-	9,120	10,313
Sale of capital assets - gains	3,000	4,195	5,800	-	8,800	4,195
Transfers	10,800	104,488	(132,906)	(104,488)	(122,106)	-
Total other items	<u>22,920</u>	<u>118,996</u>	<u>(127,106)</u>	<u>(104,488)</u>	<u>(104,186)</u>	<u>14,508</u>
<b>Change in net assets</b>	<u>(52,214)</u>	<u>1,764,647</u>	<u>(53,163)</u>	<u>33,801</u>	<u>(105,377)</u>	<u>1,798,448</u>
Net assets, beginning	<u>7,983,204</u>	<u>6,218,557</u>	<u>12,344,940</u>	<u>12,311,139</u>	<u>20,328,144</u>	<u>18,529,696</u>
Net assets, ending	<u>\$ 7,930,990</u>	<u>\$ 7,983,204</u>	<u>\$12,291,777</u>	<u>\$12,344,940</u>	<u>\$20,222,767</u>	<u>\$20,328,144</u>

# CITY OF DOWAGIAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The City's Funds:

Our analysis of the City's major fund begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's only major fund for fiscal year 2008 was the General Fund.

The General Fund pays for most of the City's governmental services, the most significant of which is public safety, with expenses of \$1,742,875 in fiscal year 2008.

### General Fund Budgetary Highlights:

The General Fund budget was adjusted throughout the year to reflect nearly \$26,000 less in State Revenue Sharing than was originally forecasted by the State when the budget was assembled in March 2008. The City received \$744,583 which basically equals the amount received thirteen years ago. If State Revenue Sharing would have kept pace with the rate of inflation, the City should have received over \$1,068,000 during the fiscal year 2007-08. Even with its continued decline, however, it continues to remain the second largest source of revenue for the General Fund.

A review of the City's property tax data, which is the largest revenue component for the General Fund, indicates that the City's tax base ratio has kept pace with historic funding levels. The projected FY08-09 ratio of TAX LEVY OVER GENERAL BUDGET is 36.88% which is nearly identical to that which existed during FY01-02 when it was 37.01%. Further, there have not been any Headlee rollbacks for the last six years.

A summary of State Revenue Sharing and property taxes is shown in the chart below:

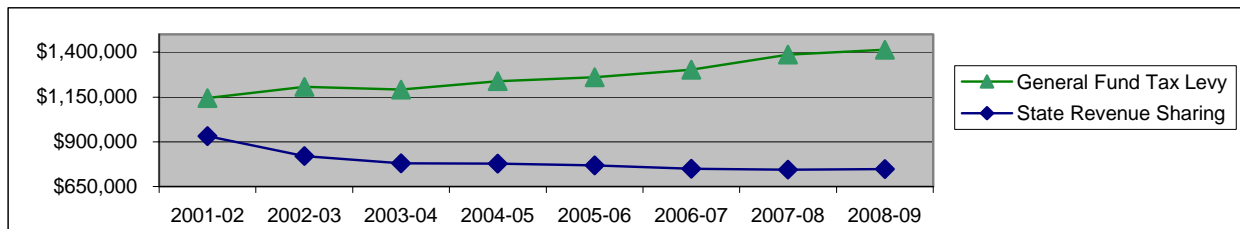
FISCAL YEAR FUNDED	STATE REVENUE SHARING (SRS)	GENERAL FUND BUDGET	SRS OVER GENERAL FUND BUDGET	GENERAL FUND TAX LEVY	GENERAL FUND MILLAGE	TAX LEVY OVER GENERAL FUND BUDGET
2001-02	\$ 932,337	\$ 3,089,806	30.17%	\$ 1,143,690	14.2018	37.01%
2002-03	821,027	3,280,666	25.03%	1,206,850	14.1890	36.79%
2003-04	779,034	3,277,920	23.77%	1,190,779	14.1521	36.33%
2004-05	778,083	3,372,880	23.07%	1,237,852	14.1521	36.70%
2005-06	768,049	3,451,520	22.25%	1,261,086	14.1521	36.54%
2006-07	749,052	3,628,599	20.64%	1,302,903	14.1521	35.91%
2007-08	744,583	3,676,119	20.25%	1,386,553	14.1521	37.72%
2008-09	747,986	3,834,153	19.51%	1,414,147	14.1521	36.88%

Increase/(decrease)

over last 7 years (184,351) 744,347 -10.67% 270,457 (0.0497) -0.13%

% Change -19.77% 24.09% 23.65% -0.35%

The chart below further exhibits the trends of our major revenue sources:





## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City received the benefit of two unique dividends (for low insurance claims history) that improved the financial condition of the City. One came from the Michigan Municipal Risk Management Authority as a dividend for our auto/liability insurance premiums. It amounted to \$87,244. Another was a premium dividend from the Michigan Municipal League's Worker's Compensation Fund that amounted to \$12,832. Additionally, the health/drug claims filed by all City employees was less than anticipated. This caused an unexpected surplus in our Self Insurance Fund for health and drug benefits that amounted to \$50,000. This surplus and the dividends mentioned earlier were receipted back to those funds originally charged on a pro-rata basis.

The General Fund has an operational deficit with expenses exceeding revenues by nearly \$6,000 for the fiscal year ending September 30, 2008. This resulted in the fund balance decreasing to \$695,254 or about 18.9% of the General Fund budget. The fiscal year 2008-09 General Fund budget projects an operational deficit of \$59,006 which will bring our fund balance down to only \$636,248 on September 30, 2009, which is 16.6% of the annual General Fund budget. Given that our property tax base is relatively flat and the State Revenue Sharing is not anticipated to increase, the General Fund operations will be continually reviewed in detail to see if additional revenues can be located and/or existing budgeted expenses can be lessened or eliminated.

On October 1, 2006 the City implemented a revised health care plan in which it self-insures the cost of increased deductibles and its drug benefits for all active employees. It has saved enough to lessen annual increases but the health insurance budget for the General Fund continues to be the second largest departmental budget and the most expensive component of the City's fringe benefit package. A typical rate for a family designation now costs in excess of \$16,404 per year. A summary of health/dental/prescription costs is contained in the following chart:

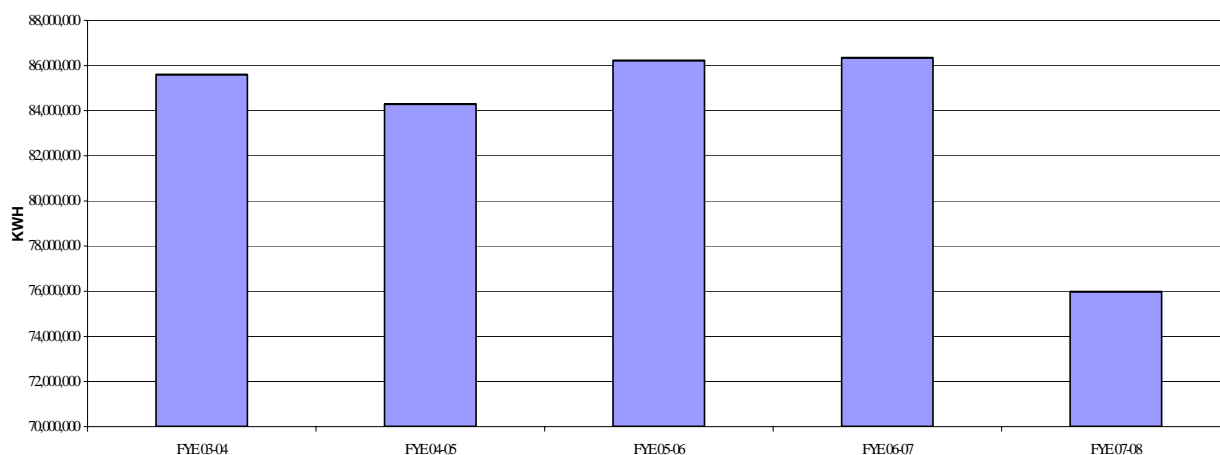
### GENERAL FUND HEALTH/DENTAL/PRESCRIPTION EXPENSE

<u>FISCAL YEAR</u>	<u>ANNUAL COST</u>	<u>% INCREASE</u>
2001-02	\$ 314,140	
2002-03	367,893	17.11%
2003-04	434,178	18.02%
2004-05	434,203	0.01%
2005-06	441,430	1.66%
2006-07	442,976	0.35%
2007-08	434,001	-2.03% (includes \$25,092 transfer from Self Insurance Fund)

### Proprietary Fund Highlights:

The City's three utility Funds (Electric, Water and Sewer) experienced a cumulative net loss (after depreciation and transfers) of \$196,032. The largest loss occurred with the Electric Fund. It resulted from a wholesale rate increase that was not matched by the City's retail rate increase effective with March usage. Since that time the wholesale rate increase to the City has increased by 113% and the retail rate increase for City customers increased approximately 43%. Overall electric usage was down over 12% from a year ago due to the recessionary economy. This significant drop in usage is shown for FY07-08 on the chart below:

## MANAGEMENT'S DISCUSSION AND ANALYSIS



A historical comparison of the net gain/(loss), after transfers, for the Electric, Sewer and Water Funds is exhibited in the chart below:

### NET GAIN/(LOSS), AFTER TRANSFERS

FUND	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Electric	\$ 361,593	\$ (144,128)	\$ (157,166)	\$ 90,914	\$ (45,260)	\$ 435,981	\$ (188,383)
Sewer	60,279	(17,665)	(145,103)	(126,731)	(302,770)	(368,611)	(39,616)
Water	(11,890)	4,239	69,192	64,915	55,679	(14,281)	31,967
<b>TOTAL</b>	<b>\$ 409,982</b>	<b>\$ (157,554)</b>	<b>\$ (233,077)</b>	<b>\$ 29,098</b>	<b>\$ (292,351)</b>	<b>\$ 53,089</b>	<b>\$ (196,032)</b>

The DART Fund received a state grant (\$165,002) that fully funded the purchase of three new buses. The ridership fares were increased effective September 1, 2007 representing the first increase in fares since the DART system was placed in operation in 1975. The fare increase generated an additional \$9,415 over the previous year. The DART millage levy for FY08-09 was increased by .05 mills but it is anticipated that this fund will still encounter a cash deficit of about \$9,000 for said year.

From a cash flow perspective, the Proprietary Funds had a cumulative decrease of \$424,707. This is summarized in the chart below:

### NONRESTRICTED CASH FLOW ANALYSIS

	ELETRIC	SEWER	WATER	DART	TOTAL
Cash at beginning of year	\$ 1,487,015	\$ 871,482	\$ 394,538	\$ 156,944	\$ 2,909,979
Cash at end of year	1,449,560	538,384	340,990	156,338	2,485,272
Net change	\$ 37,455	\$ 333,098	\$ 53,548	\$ 606	\$ 424,707

The Sewer Fund experienced a substantial decrease in cash for the following reasons:

- Major operational upgrades at wastewater treatment plant: \$243,572
- Carryover on last year's upgrade for Vineyard Place lift station: \$44,623
- Increase in City electric rate to power the wastewater treatment plant: \$73,004

### Fiduciary Fund Highlights:

The City has a trust agreement with the Michigan Municipal Employees Retirement System (MERS) for the investment of surplus funds on our Retiree Health Insurance Fund. To date, it has transferred \$200,000 to the MERS trust so that it can be invested by MERS. This principal amount has grown to \$231,829 in slightly less

## MANAGEMENT'S DISCUSSION AND ANALYSIS

than four years. For the initial three fiscal years, the rate of return was approximately 10.4%. Given the economic volatility in 2008, however, the trust experienced a loss of about 11.7%.

### **Capital Assets and Debt Administration:**

At the end of fiscal year 2008, the City has \$27,150,976 invested, before depreciation, in a wide range of capital assets, including land, buildings and improvements, vehicles, furniture and equipment, electric, sewer and water systems.

Debt of \$2,232,421 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets and \$1,510,000 of debt related to the sewer and water systems is recorded as a liability in the business-type activities in the statement of net assets.

A summary of all long term debt is shown in the chart below:

# CITY OF DOWAGIAC

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LONG TERM DEBT SUMMARY

Description of Debt	Fund Servicing Debt	Aver. Int. Rate %	Debt Outstanding-Principal FYE 9-30-08	Debt Service Payment (I&P) FYE 9-30-09	Date of Maturity
1994 Downtown Dev-GO Bonds	DDA	5.95%	\$ 125,000	\$ 65,685	11/01/09
1997 Building Auth. GO Bonds	Bldg Auth	5.25%	935,000	127,075	02/01/17
1997 Downtown Devel GO Bonds	DDA	5.70%	105,000	56,040	05/01/10
2000 Installment Purchase Note (b) (M-51 S Commercial Development)	Commercial Development	7.00%	278,611	54,897	12/01/14
2000 Water/Sewer Revenue Bonds	Water	5.30%	503,565	53,003	
	Sewer		473,445	49,832	
	Major Streets		532,989	56,100	
	TOTAL		1,510,000	158,935	
2006 Promissory Note	Commercial Developm't	5.75%	85,651	10,000	08/04/15 (balloon payment)
2001 Promissory Note (a) (Land for Phase IV-Industrial Park)	Industrial Developm't	8.00%	756,025	74,094	12/01/16 (balloon payment)
2001 Michigan Strategic Loan Refund (MEDC grant #990051-EDIG must be repaid without interest from 10/1/01 since no industries built in Industrial Park per grant agreement.)	Industrial Developm't	0.00%	177,685	25,384	08/01/15
2007 Brownfield Authority Bonds Paid by General Fund pending taxable development in Brownfield area on Main St.	General	4.15%	810,000	59,106	05/01/28
	TOTAL		<u>\$ 4,782,972</u>	<u>\$ 472,281</u>	

GO - General Obligation

I&P - Interest & Principal

(a) Promissory Note prohibits prepayment

(b) Promissory Note limits prepayment to only 40% of outstanding principal balance

### Economic Factors:

The City continues to maintain positive fund equity in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – the local housing market downturn indicates a decrease in taxable value of property in the City is staged to occur that will result in less property tax revenue, the State of Michigan is experiencing budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and, some of our major industries have closed and others are scheduled to close causing higher unemployment, a decreased tax base, lost utility sales, and greater local unemployment. We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

# CITY OF DOWAGIAC

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

A history of the City's property tax base is shown in the chart below:

<u>YEAR</u>	<u>TAXABLE VALUE</u>	<u>SEV</u>
2003	\$ 86,842,045	\$ 108,065,707
2004	89,132,365	110,337,091
2005	91,377,472	111,296,964
2006	93,596,714	112,076,850
2007	101,207,033	124,923,000
2008	103,979,211	126,662,000

### **Contacting the City's Financial Management:**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Finance Director, 241 S. Front Street, Dowagiac, Michigan, 49047.

## ***BASIC FINANCIAL STATEMENTS***

## STATEMENT OF NET ASSETS

September 30, 2008

	<i>Primary Government</i>			<i>Component</i>
	<i>Governmental</i>	<i>Business-type</i>	<i>Total</i>	<i>Units</i>
	<i>Activities</i>	<i>Activities</i>		
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,168,243	\$ 1,116,037	\$ 2,284,280	\$ 78,290
Investments	3,804,382	1,369,235	5,173,617	-
Receivables	657,597	2,092,703	2,750,300	134,752
Inventory	7,412	199,009	206,421	-
Prepaid expenses	100,644	71,677	172,321	1,372
Investment in land	-	-	-	458,382
Restricted investments	-	1,203,033	1,203,033	-
Capital assets:				
Nondepreciable capital assets	2,849,903	66,451	2,916,354	-
Depreciable capital assets, net	<u>3,963,571</u>	<u>8,618,496</u>	<u>12,582,067</u>	<u>-</u>
Total assets	<u>12,551,752</u>	<u>14,736,641</u>	<u>27,288,393</u>	<u>672,796</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	282,032	834,342	1,116,374	240,866
Deferred revenue	1,677,984	2,995	1,680,979	84,713
Long-term liabilities:				
Due within one year	157,667	80,000	237,667	135,000
Due in more than one year	<u>2,503,079</u>	<u>1,527,527</u>	<u>4,030,606</u>	<u>928,920</u>
Total liabilities	<u>4,620,762</u>	<u>2,444,864</u>	<u>7,065,626</u>	<u>1,389,499</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	4,581,053	7,174,947	11,756,000	-
Restricted for:				
Debt service	74,405	250,000	324,405	-
Streets	92,038	-	92,038	-
Nonexpendable cemetery principal	771,795	-	771,795	-
Replacement of capital assets	-	953,033	953,033	-
Unrestricted (deficit)	<u>2,411,699</u>	<u>3,913,797</u>	<u>6,325,496</u>	<u>(716,703)</u>
Total net assets	<u>\$ 7,930,990</u>	<u>\$ 12,291,777</u>	<u>\$ 20,222,767</u>	<u>\$ (716,703)</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## STATEMENT OF ACTIVITIES

Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
General government	\$ 1,646,986	\$ 551,832	\$ 10,000	\$ -	\$(1,085,154)
Public safety	1,742,875	158,976	236,952	14,934	(1,332,013)
Public works	1,549,574	334,580	811,553	-	(403,441)
Community and economic development	33,100	20,869	-	-	(12,231)
Recreation and culture	11,046	31,354	-	-	20,308
Interest on long-term debt	138,742	-	-	-	(138,742)
Total governmental activities	5,122,323	1,097,611	1,058,505	14,934	(2,951,273)
<i>Business-type activities:</i>					
Electric	7,177,046	7,068,723	-	-	(108,323)
Sewer	1,480,290	1,350,358	-	-	(129,932)
Water	639,344	659,953	-	-	20,609
DART	221,019	28,301	107,195	165,002	79,479
Total business-type activities	9,517,699	9,107,335	107,195	165,002	(138,167)
Total primary government	\$ 14,640,022	\$ 10,204,946	\$ 1,165,700	\$ 179,936	\$(3,089,440)
<b>COMPONENT UNITS:</b>					
Downtown development authority	\$ 159,421	\$ 43,966	\$ -	\$ -	\$ (115,455)
Local development finance authority	32,000	-	-	-	(32,000)
Brownfield redevelopment authority	34,846	-	-	-	(34,846)
Total component units	\$ 226,267	\$ 43,966	\$ -	\$ -	\$ (182,301)

continued

The accompanying notes are an integral part of these financial statements.



	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Units</i>
		<i>Activities</i>		
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (2,951,273)	\$ (138,167)	\$ (3,089,440)	\$ (182,301)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	1,466,437	48,973	1,515,410	-
Property taxes, levied for trash collection	137,144	-	137,144	-
Property taxes, captured by component units	-	-	-	208,619
Payment in lieu of property taxes	332,788	-	332,788	-
Franchise taxes	40,860	-	40,860	-
Grants and contributions not restricted to				
specific programs	746,226	-	746,226	-
Unrestricted investment earnings	152,684	163,137	315,821	3,607
Contributions to principal of permanent funds	9,120	-	9,120	-
Special item - Proceeds from sale of capital assets	3,000	5,800	8,800	-
Transfers	10,800	(132,906)	(122,106)	122,106
Total general revenues, contributions,				
special items and transfers	2,899,059	85,004	2,984,063	334,332
Change in net assets	(52,214)	(53,163)	(105,377)	152,031
Net assets (deficit), beginning of year	7,983,204	12,344,940	20,328,144	(868,734)
Net assets (deficit), end of year	\$ 7,930,990	\$ 12,291,777	\$ 20,222,767	\$ (716,703)

# CITY OF DOWAGIAC

## GOVERNMENTAL FUNDS

### BALANCE SHEET

September 30, 2008

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 197,651	\$ 585,303	\$ 782,954
Investments	1,776,930	1,235,077	3,012,007
Taxes receivable	194,541	-	194,541
Accounts receivable	80,429	4,075	84,504
Notes receivable	-	62,564	62,564
Accrued interest receivable	42,747	25,911	68,658
Due from other governmental units	145,463	70,876	216,339
Due from other funds	-	6,614	6,614
Inventory	7,412	-	7,412
Prepaid expenditures	80,927	9,548	90,475
Total assets	<u>\$ 2,526,100</u>	<u>\$ 1,999,968</u>	<u>\$ 4,526,068</u>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 20,710	\$ 55,263	\$ 75,973
Accrued expenses	59,309	3,902	63,211
Due to component unit	84,713	-	84,713
Deposits payable	527	1,300	1,827
Deferred revenue	1,665,587	88,876	1,754,463
Total liabilities	<u>1,830,846</u>	<u>149,341</u>	<u>1,980,187</u>
<b>Fund balances:</b>			
Reserved for:			
Inventory	7,412	-	7,412
Prepaid expenditures	80,927	9,548	90,475
Debt service	-	74,405	74,405
Nonexpendable cemetery principal	-	771,795	771,795
Unreserved:			
Designated, reported in:			
General fund	11,120	-	11,120
Undesignated			
General fund	595,795	-	595,795
Special revenue funds	-	880,087	880,087
Capital projects funds	-	11,203	11,203
Permanent fund	-	103,589	103,589
Total fund balances	<u>695,254</u>	<u>1,850,627</u>	<u>2,545,881</u>
Total liabilities and fund balances	<u>\$ 2,526,100</u>	<u>\$ 1,999,968</u>	<u>\$ 4,526,068</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

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## RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Year Ended September 30, 2008

<b>Total fund balances for governmental funds</b>		\$ 2,545,881
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	6,741,868	
Less accumulated depreciation	<u>(817,319)</u>	5,924,549
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(26,541)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.		
Property taxes	13,915	
Loans	<u>62,564</u>	76,479
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds payable	(935,000)	
Loans and notes payable	(1,297,421)	
Compensated absences payable	<u>(425,235)</u>	(2,657,656)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>2,068,278</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 7,930,990</u></u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

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## GOVERNMENTAL FUNDS

### STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2008

	<i>General Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
<b>Revenues:</b>			
Property taxes	\$ 1,792,585	\$ 137,144	\$ 1,929,729
Licenses and permits	102,651	-	102,651
Federal grants	14,934	261,871	276,805
State grants	754,370	549,342	1,303,712
Contributions from other units	239,603	-	239,603
Charges for services	542,205	-	542,205
Fines and forfeits	43,799	5,580	49,379
Interest and rents	106,627	117,178	223,805
Other revenue	73,437	328,409	401,846
Total revenues	<u>3,670,211</u>	<u>1,399,524</u>	<u>5,069,735</u>
<b>Expenditures:</b>			
Current			
General government	1,035,844	93,504	1,129,348
Public safety	1,662,778	21,761	1,684,539
Public works	80,435	973,660	1,054,095
Community and economic development	-	12,231	12,231
Recreation and culture	-	250	250
Other	496,812	232,974	729,786
Capital outlay	29,798	18,517	48,315
Debt service			
Principal	-	149,052	149,052
Interest and fees	-	141,348	141,348
Total expenditures	<u>3,305,667</u>	<u>1,643,297</u>	<u>4,948,964</u>
Excess (deficiency) of revenues over expenditures	<u>364,544</u>	<u>(243,773)</u>	<u>120,771</u>
<b>Other financing sources (uses):</b>			
Transfers from other funds	-	258,877	258,877
Transfers to other funds	(311,346)	(122,480)	(433,826)
Transfers to component units	(59,106)	-	(59,106)
Total other financing sources (uses)	<u>(370,452)</u>	<u>136,397</u>	<u>(234,055)</u>
Net change in fund balances	(5,908)	(107,376)	(113,284)
Fund balances, beginning of year	<u>701,162</u>	<u>1,958,003</u>	<u>2,659,165</u>
Fund balances, end of year	<u>\$ 695,254</u>	<u>\$ 1,850,627</u>	<u>\$ 2,545,881</u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

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## RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2008

**Net change in fund balances - total governmental funds** \$ (113,284)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	18,517	
Less depreciation expense	<u>(134,779)</u>	(116,262)

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue in previous years.

Personal property taxes	6,640	
Notes proceeds	<u>(20,869)</u>	(14,229)

Repayments of principal on long-term obligations are expenditures in governmental but the payments reduce long-term liabilities in the statement of net assets.		149,052
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(38,637)	
Change in accrued interest on bonds and loans payable	<u>2,606</u>	(36,031)

The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>78,540</u>
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**Change in net assets of governmental activities** \$ (52,214)

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF NET ASSETS** September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
<b>Assets:</b>						
<b><i>Current assets:</i></b>						
Cash and cash equivalents	\$ 1,182,416	\$ (76,375)	\$ 31,809	\$ (21,813)	\$ 1,116,037	\$ 385,289
Investments	267,144	614,759	309,181	178,151	1,369,235	792,375
Accounts receivable	1,359,796	251,794	142,554	-	1,754,144	9,283
Notes receivable	-	-	-	-	-	11,605
Accrued interest receivable	34,778	14,525	9,667	2,142	61,112	10,103
Due from other governmental units	-	52,351	-	8,890	61,241	-
Inventory	110,389	18,604	70,016	-	199,009	-
Prepaid expenses	30,892	21,771	13,580	5,434	71,677	10,169
Total current assets	<u>2,985,415</u>	<u>897,429</u>	<u>576,807</u>	<u>172,804</u>	<u>4,632,455</u>	<u>1,218,824</u>
<b><i>Noncurrent assets:</i></b>						
Restricted investments	953,033	250,000	-	-	1,203,033	-
Capital assets:						
Nondepreciable capital assets	16,775	47,710	1,966	-	66,451	-
Depreciable capital assets, net	2,604,829	3,989,663	1,878,056	145,948	8,618,496	888,925
Advance to component unit	-	216,206	-	-	216,206	-
Total noncurrent assets	<u>3,574,637</u>	<u>4,503,579</u>	<u>1,880,022</u>	<u>145,948</u>	<u>10,104,186</u>	<u>888,925</u>
Total assets	<u>6,560,052</u>	<u>5,401,008</u>	<u>2,456,829</u>	<u>318,752</u>	<u>14,736,641</u>	<u>2,107,749</u>

continued

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS

### STATEMENT OF NET ASSETS, CONTINUED

September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>		
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable	635,856	28,331	3,132	2,073	669,392	34,828
Accrued expenses	13,824	10,706	5,860	2,693	33,083	1,553
Deposits payable	73,990	-	30,905	-	104,895	-
Accrued interest payable	-	17,977	8,995	-	26,972	-
Deferred revenue	-	-	2,995	-	2,995	-
Current long-term debt	-	53,321	26,679	-	80,000	-
Total current liabilities	<u>723,670</u>	<u>110,335</u>	<u>78,566</u>	<u>4,766</u>	<u>917,337</u>	<u>36,381</u>
<b>Noncurrent liabilities:</b>						
Compensated absences payable	52,110	18,804	18,207	8,406	97,527	3,090
Long-term debt	-	953,114	476,886	-	1,430,000	-
Total noncurrent liabilities	<u>52,110</u>	<u>971,918</u>	<u>495,093</u>	<u>8,406</u>	<u>1,527,527</u>	<u>3,090</u>
Total liabilities	<u>775,780</u>	<u>1,082,253</u>	<u>573,659</u>	<u>13,172</u>	<u>2,444,864</u>	<u>39,471</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	2,621,604	3,030,938	1,376,457	145,948	7,174,947	888,925
Restricted for:						
Debt service	-	250,000	-	-	250,000	-
Replacement of capital assets	953,033	-	-	-	953,033	-
Unrestricted	<u>2,209,635</u>	<u>1,037,817</u>	<u>506,713</u>	<u>159,632</u>	<u>3,913,797</u>	<u>1,179,353</u>
Total net assets	<u>\$ 5,784,272</u>	<u>\$ 4,318,755</u>	<u>\$ 1,883,170</u>	<u>\$ 305,580</u>	<u>\$12,291,777</u>	<u>\$ 2,068,278</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF DOWAGIAC

## *PROPRIETARY FUNDS* **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

Year Ended September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>		
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Operating revenues:</b>						
Charges for services	\$ 6,910,071	\$ 1,313,229	\$ 582,174	\$ 26,677	\$ 8,832,151	\$ -
Penalties	65,908	15,102	12,164	-	93,174	-
Equipment rental	-	-	-	-	-	415,647
Other	92,744	22,027	15,369	1,624	131,764	25,992
Total operating revenues	<u>7,068,723</u>	<u>1,350,358</u>	<u>609,707</u>	<u>28,301</u>	<u>9,057,089</u>	<u>441,639</u>
<b>Operating expenses:</b>						
Personnel	445,998	306,517	181,803	90,663	1,024,981	39,154
Fringe benefits	222,069	193,964	103,548	48,821	568,402	20,221
Supplies	18,847	82,125	16,811	19,672	137,455	135,291
Property tax equivalents	313,432	-	-	-	313,432	-
Contracted services	169,920	134,415	21,429	5,432	331,196	29,286
Purchase of power	5,233,212	-	-	-	5,233,212	-
Administrative expense	199,486	113,816	79,734	10,584	403,620	15,463
Telephone	4,809	6,178	3,584	869	15,440	-
Mileage	3,080	1,820	1,400	-	6,300	-
Dues and membership fees	17,125	-	-	-	17,125	-
Education and training	5,339	436	169	89	6,033	-
Printing and publishing	-	-	-	42	42	-
Insurance	57,777	35,457	13,565	3,462	110,261	32,448
Utilities	104,050	203,228	45,430	-	352,708	15,989
Repairs and maintenance	77,369	122,712	47,512	10,237	257,830	112,844
Equipment rental	98,660	81,141	25,414	583	205,798	4,507
Building rent	-	-	-	9,522	9,522	-
Other services and supplies	3,123	1,126	2,176	1,920	8,345	27,818
Depreciation	181,228	142,833	69,488	19,123	412,672	202,682
Total operating expenses	<u>7,155,524</u>	<u>1,425,768</u>	<u>612,063</u>	<u>221,019</u>	<u>9,414,374</u>	<u>635,703</u>
Operating income (loss)	<u>(86,801)</u>	<u>(75,410)</u>	<u>(2,356)</u>	<u>(192,718)</u>	<u>(357,285)</u>	<u>(194,064)</u>

continued

*The accompanying notes are an integral part of these financial statements.*



*PROPRIETARY FUNDS*

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS, CONTINUED**

Year Ended September 30, 2008

	<i>Business-type Activities</i>				<i>Activities</i>	
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>DART Fund</i>		
<b>Non-operating revenues</b>						
<b>(expenses):</b>						
Property taxes	-	-	-	48,973	48,973	-
Federal grants	-	-	-	163,195	163,195	-
State grants	-	-	-	109,002	109,002	-
Interest income	87,812	49,926	16,782	8,617	163,137	31,889
Rental income	-	-	50,246	-	50,246	-
Loss on disposal of assets	(21,522)	-	-	-	(21,522)	(7,140)
Proceeds from sale of assets	-	-	-	5,800	5,800	3,000
Interest expense	-	(54,522)	(27,281)	-	(81,803)	-
Total non-operating revenues (expenses)	<u>66,290</u>	<u>(4,596)</u>	<u>39,747</u>	<u>335,587</u>	<u>437,028</u>	<u>27,749</u>
Net income (loss) before transfers	<u>(20,511)</u>	<u>(80,006)</u>	<u>37,391</u>	<u>142,869</u>	<u>79,743</u>	<u>(166,315)</u>
<b>Transfer from other funds</b>	13,701	55,779	-	-	69,480	244,855
<b>Transfer to other funds</b>	(118,573)	(15,389)	(5,424)	-	(139,386)	-
<b>Transfer to component units</b>	<u>(63,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(63,000)</u>	<u>-</u>
Net income (loss)	(188,383)	(39,616)	31,967	142,869	(53,163)	78,540
Net assets, beginning of year	<u>5,972,655</u>	<u>4,358,371</u>	<u>1,851,203</u>	<u>162,711</u>	<u>12,344,940</u>	<u>1,989,738</u>
Net assets, end of year	<u>\$ 5,784,272</u>	<u>\$ 4,318,755</u>	<u>\$ 1,883,170</u>	<u>\$ 305,580</u>	<u>\$12,291,777</u>	<u>\$ 2,068,278</u>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

Year Ended September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 6,727,436	\$ 1,265,786	\$ 603,948	\$ 27,795	\$8,624,965	\$ 64,394
Cash received for interfund services	-	-	-	-	-	377,168
Cash payments for interfund services	(298,146)	(194,957)	(105,148)	(11,167)	(609,418)	(19,970)
Cash payments to employees	(434,893)	(314,258)	(174,169)	(88,790)	(1,012,110)	(41,844)
Cash payments to suppliers for goods and services	<u>(5,916,692)</u>	<u>(817,752)</u>	<u>(317,739)</u>	<u>(99,028)</u>	<u>(7,151,211)</u>	<u>(355,913)</u>
Net cash provided (used) by operating activities	<u>77,705</u>	<u>(61,181)</u>	<u>6,892</u>	<u>(171,190)</u>	<u>(147,774)</u>	<u>23,835</u>
<b>Cash flows from non-capital financing activities:</b>						
Payment received on advance to component unit	-	23,940	-	-	23,940	-
Transfers in	13,701	55,779	-	-	69,480	244,855
Transfers out	<u>(181,573)</u>	<u>(15,389)</u>	<u>(5,424)</u>	<u>-</u>	<u>(202,386)</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>(167,872)</u>	<u>64,330</u>	<u>(5,424)</u>	<u>-</u>	<u>(108,966)</u>	<u>244,855</u>
<b>Cash flows from capital and related financing activities:</b>						
Property taxes	-	-	-	48,973	48,973	-
Federal grants	-	-	-	163,195	163,195	-
State grants	-	-	-	109,002	109,002	-
Proceeds from sale of assets	-	-	-	5,800	5,800	3,000
Acquisition and construction of capital assets	(35,100)	(281,664)	(69,751)	(165,003)	(551,518)	(77,388)
Principal payments	-	(49,988)	(25,012)	-	(75,000)	-
Interest paid	<u>-</u>	<u>(54,522)</u>	<u>(27,281)</u>	<u>-</u>	<u>(81,803)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(35,100)</u>	<u>(386,174)</u>	<u>(122,044)</u>	<u>161,967</u>	<u>(381,351)</u>	<u>(74,388)</u>

continued

The accompanying notes are an integral part of these financial statements.

## *PROPRIETARY FUNDS* **STATEMENT OF CASH FLOWS, CONTINUED**

Year Ended September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>		
<b>Cash flows from investing activities:</b>						
Interest received	87,812	49,926	16,782	8,617	163,137	31,889
Rent received	-	-	50,246	-	50,246	-
Net cash provided by investing activities	87,812	49,926	67,028	8,617	213,383	31,889
Net increase (decrease) in cash and cash equivalents	(37,455)	(333,098)	(53,548)	(606)	(424,707)	226,191
Cash, cash equivalents, and investments, beginning of year	2,440,048	1,121,482	394,538	156,944	4,113,012	951,473
Cash, cash equivalents, and investments, end of year	<u>\$ 2,402,593</u>	<u>\$ 788,384</u>	<u>\$ 340,990</u>	<u>\$ 156,338</u>	<u>\$ 3,688,305</u>	<u>\$ 1,177,664</u>

continued

*The accompanying notes are an integral part of these financial statements.*

*PROPRIETARY FUNDS*  
**STATEMENT OF CASH FLOWS, CONTINUED**

Year Ended September 30, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
				<i>Nonmajor Enterprise Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>DART Funds</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (86,801)	\$ (75,410)	\$ (2,356)	\$ (192,718)	\$ (357,285)	\$ (194,064)
Adjustments:						
Depreciation	181,228	142,833	69,488	19,123	412,672	202,682
Change in assets and liabilities:						
Accounts receivable	(322,559)	(72,267)	(2,401)	531	(396,696)	(1,900)
Notes receivable	-	-	-	-	-	(3,015)
Accrued interest receivable	(23,399)	2,770	(6,353)	553	(26,429)	4,329
Due from other governmental units	4,671	(15,075)	-	(1,590)	(11,994)	509
Inventory	7,651	(354)	(1,950)	-	5,347	-
Prepaid expenses	(16,200)	(7,211)	(5,869)	(729)	(30,009)	(8,864)
Accounts payable	302,128	(31,613)	(70,545)	926	200,896	26,327
Accrued expenses	(3,014)	4,173	2,332	841	4,332	521
Due to other governmental units	-	(468)	-	-	(468)	-
Deposits payable	22,895	-	14,325	-	37,220	-
Accrued interest payable	-	(817)	(408)	-	(1,225)	-
Deferred revenue	-	-	2,995	-	2,995	-
Compensated absences payable	11,105	(7,741)	7,634	1,873	12,871	(2,690)
Net cash provided (used) by operating activities	<u>\$ 77,705</u>	<u>\$ (61,181)</u>	<u>\$ 6,892</u>	<u>\$ (171,190)</u>	<u>\$ (147,774)</u>	<u>\$ 23,835</u>

*The accompanying notes are an integral part of these financial statements.*

*FIDUCIARY FUNDS*  
**STATEMENT OF NET ASSETS**  
September 30, 2008

	<i>Retiree Health Insurance Fund</i>	<i>Agency Funds</i>	<i>Total Fiduciary Funds</i>
<b>Assets:</b>			
Cash and cash equivalents	\$ 106,020	\$ 470,038	\$ 576,058
Investments	231,829	-	231,829
Prepaid expenses	4,949	-	4,949
Total assets	<u>342,798</u>	<u>470,038</u>	<u>812,836</u>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	-	9,598	9,598
Due to other governmental units	-	460,440	460,440
Deferred revenue	1,817	-	1,817
Total liabilities	<u>1,817</u>	<u>470,038</u>	<u>471,855</u>
<b>Net Assets:</b>			
Net assets held in trust for retiree health insurance	<u>340,981</u>	<u>-</u>	<u>340,981</u>
Total net assets	<u>\$ 340,981</u>	<u>\$ -</u>	<u>\$ 340,981</u>

*The accompanying notes are an integral part of these financial statements.*

*FIDUCIARY FUNDS*  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year Ended September 30, 2008

	<i>Retiree Health Insurance Fund</i>
<b>Additions:</b>	
Employee contributions	\$ 68,594
Employer contributions	52,617
Investment income (loss)	<u>(30,743)</u>
Total additions	<u>90,468</u>
<b>Deductions:</b>	
Benefit payments	<u>60,589</u>
Total deductions	<u>60,589</u>
Net increase (decrease)	29,879
Net assets, beginning of year	<u>311,102</u>
Net assets, end of year	<u><u>\$ 340,981</u></u>

*The accompanying notes are an integral part of these financial statements.*

## ***NOTES TO FINANCIAL STATEMENTS***

## NOTES TO FINANCIAL STATEMENTS

September 30, 2008

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies of the City of Dowagiac conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity:**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

**Discretely Presented Component Units** - The component units' columns in the combined financial statements include the financial data of the City's two component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

***Downtown Development Authority*** - The Downtown Development Authority (DDA) is a separate legal entity. The budgets and expenditures of the DDA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority. The City has backed the DDA's long-term debt.

***Local Development Finance Authority*** - The Local Development Finance Authority (LDFA) is a separate legal entity. The budgets and expenditures of the LDFA are approved by the City Council. The City has the ability to significantly influence operations of the Local Development Finance Authority.

***Brownfield Redevelopment Authority*** - The Brownfield Redevelopment Authority is a separate legal entity. The budgets and expenditures of the Authority are approved by the City Council. The City has the ability to significantly influence operations of the Authority. The City has backed the Authority's long-term debt.

**Blended Component Unit** - The transactions of the Dowagiac Municipal Building Authority are included in the funds of the primary government. The purpose of the Building Authority was to finance the construction of the new City Hall in 1997.

The Dowagiac Housing Commission is not a component unit of the City.

#### **Joint Operation:**

**The Cass-Van Buren Emergency Services Authority** – The City of Dowagiac, Townships of Keeler, LaGrange, Pokagon, Silver Creek, Volinia and Wayne, and the Pokagon Band of Potawatami Indians jointly established the Cass-Van Buren Emergency Services Authority. Each member appoints a representative to serve on the administrative board of the Authority.

#### **Basis of Presentation – Fund Accounting:**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### **Basis of Accounting:**

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net assets resulting from current year activities.

#### **FUND FINANCIAL STATEMENTS**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

The City reports the following major governmental funds:

**General Fund** – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The City reports the following major enterprise funds:

**Electric Fund** – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

**Sewer Fund** – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

**Water Fund** – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

### Assets, Liabilities and Equity:

**Cash and Investments** – Cash and investments include cash on hand, demand deposits, time deposits, highly liquid investments with original maturity of three months or less, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices. For purposes of the statement of cash flows, cash includes all cash and investments.

**Restricted Assets** – Certain resources set aside for equipment replacement, repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by City Charter and applicable bond covenants.

**Receivables and Payables** – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$65,757 for Electric Fund, \$19,000 for Sewer Fund and \$9,000 for Water Fund.

**Property Taxes** – Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following July 1 and are due without penalty on or before September 15 with the final collection date of February 28 before they are added to the County tax rolls. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

The 2007 taxable valuation of the City totaled \$103,194,227, on which ad valorem taxes levied consisted of 14.1521 mills for the City’s operating purposes, .5000 for D.A.R.T, and 1.4000 for solid waste disposal.

**Inventories and Prepaid Expenses** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

**Capital Assets** – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

The City defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized. Buildings and improvements, infrastructure, vehicles, machinery and other equipment, and furniture and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Infrastructure	20-50 years
Vehicles	5-25 years
Machinery and other equipment	5-33 years
Furniture and equipment	5-25 years

***Compensated Absences*** – It is the City’s policy to permit employees to accumulate earned but unused sick and vacation days. Employees working the equivalent of a 40-hour work week shall have a maximum cash surrender value of accumulated sick leave based on their date of hire, either up to 80% of 960 hours for those hired before April 30, 1998 or 50% of 60 days for those hired thereafter. Fire department employees working the equivalent of five 24-hour days in a bi-weekly period shall have a maximum cash surrender value of accumulated sick leave of up to 36.9231% of 2,756 hours. The maximum accumulated amount of sick hours is dependent upon hire date. There is no maximum cash surrender value of accumulated vacation leave. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual’s employment has terminated as of year end.

***Long-term Obligations*** – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

***Fund Equity*** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Eliminations and Reclassifications:**

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

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### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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#### Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the first Council meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them, for the General Fund and Special Revenue Funds.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency.
5. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
6. All annual appropriations lapse at fiscal year end.

#### Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

#### State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at October 1, 2007		\$	-
Current year building permit revenue			60,579
Related expenses:			
Direct costs	134,815		
Estimated indirect costs	<u>-</u>		
Total construction code expenses			<u>134,815</u>
Cumulative surplus at September 30, 2008		\$	<u>-</u>

In accordance with the Act, no reservation of fund balance in the General Fund is required.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

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### NOTE 3: DEPOSITS AND INVESTMENTS

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Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has authorized the finance director and treasurer to use any bank that they deem necessary for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,470,350 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$972,432 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Effective October 3, 2008, legislation was passed to increase deposit insurance coverage from \$100,000 to \$250,000 per depositor through December 31, 2009. The above amount of \$972,432 represents this change.

#### **Custodial Credit Risk of Investments:**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 4,280,946	Counterparty

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,502,577	13.64 years
Federal Home Loan Bank	500,155	2.21 years
Federal Home Loan Mortgage Corporation	<u>2,278,214</u>	10.93 years
	<u>\$ 4,280,946</u>	

### Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government and agency securities	\$ 4,280,946	AAA	Moody's

### Concentration of Credit Risk:

The City places no limit on the amount the City may invest in any one issuer. At year end, the City had more than 5% of its investments in the following:

<u>Investment</u>	<u>Fair Value</u>	<u>Concentration</u>
U.S. government and agency securities:		
Federal National Mortgage Association	\$ 1,502,577	35%
Federal Home Loan Bank	500,155	12%
Federal Home Loan Mortgage Corporation	<u>2,278,214</u>	53%

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

#### Electric Fund Reserves:

The City Charter requires the establishment of an Electric Fund reserve in an amount equal to 20% of the replacement cost of the City's Electric Utility Fund's property and equipment. No appraisal of replacement cost for property and equipment was performed for the year ended September 30, 2008. The Electric Fund reserve account balance for improvements and replacements, as of September 30, 2008, is stated at \$953,033. This balance represents 20% of the estimated replacement cost for property and equipment, which was determined by utilizing the April 17, 2003 appraisal as adjusted for the increase in the annual Consumer Price Index.

#### Sewer Fund Reserves:

The authorizing ordinance for the 2000 Water and Sewer Supply System Revenue Bonds required the establishment and maintenance of various reserve accounts as follows:

**Receiving Account** – All receipts are initially deposited into this account.

**Operation and Maintenance Account** – Quarterly transfers are to be made to cover upcoming operating expenses.

**Bond and Interest Redemption Account** – Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

**Bond Reserve Account** – From the proceeds of the Series 2000 Bonds there shall be an amount set aside which is the lesser of: (1) maximum debt service due in any year; (2) 125% of the average annual debt service; or (3) 10% of the principal amount of the bonds.

At September 30, 2008 the City had established these accounts and had restricted cash as follows:

	<i>Requirement</i>			<i>Amount Funded</i>
	<i>October 1, 2007</i>	<i>Additions (Reductions)</i>	<i>September 30, 2008</i>	<i>Restricted Investments</i>
<i>Sewer Fund:</i>				
Bond Reserve	\$ 76,938	\$ 2,796	\$ 79,734	\$ 100,000
Bond and Interest Redemption	169,661	-	169,661	150,000
	<u>\$ 246,599</u>	<u>\$ 2,796</u>	<u>\$ 249,395</u>	<u>\$ 250,000</u>
<i>Electric Fund:</i>				
Replacement of Capital Assets	<u>\$ 908,516</u>	<u>\$ 44,517</u>	<u>\$ 953,033</u>	<u>\$ 953,033</u>

The required minimum amount for the bond reserve is the maximum debt service due in any year.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities for the year was as follows:

	<i>October 1, 2007</i>	<i>Additions</i>	<i>Disposals/ Retirements</i>	<i>September 30, 2008</i>
<b>Governmental Activities:</b>				
<i>Governmental Funds:</i>				
Nondepreciable capital assets:				
Land	\$ 2,849,903	\$ -	\$ -	\$ 2,849,903
Depreciable capital assets:				
Buildings and improvements	2,056,375	-	-	2,056,375
Land improvements	1,649,405	-	-	1,649,405
Vehicles	1,987	-	-	1,987
Machinery and equipment	246,043	-	(80,362)	165,681
Furniture and equipment	6,000	18,517	(6,000)	18,517
	<u>3,959,810</u>	<u>18,517</u>	<u>(86,362)</u>	<u>3,891,965</u>
<i>Internal Service Funds:</i>				
Buildings and improvements	143,233	-	-	143,233
Vehicles	2,067,639	46,371	(225,526)	1,888,484
Machinery and equipment	1,147,470	31,017	(221,005)	957,482
Furniture and equipment	191,861	-	(20,185)	171,676
	<u>3,550,203</u>	<u>77,388</u>	<u>(466,716)</u>	<u>3,160,875</u>
Subtotal depreciable capital assets	7,510,013	95,905	(553,078)	7,052,840
Accumulated depreciation:				
Governmental Funds	(768,902)	(134,779)	86,362	(817,319)
Internal Service Funds	<u>(2,528,844)</u>	<u>(202,682)</u>	<u>459,576</u>	<u>(2,271,950)</u>
Total accumulated depreciation	<u>(3,297,746)</u>	<u>(337,461)</u>	<u>545,938</u>	<u>(3,089,269)</u>
Net capital assets being depreciated	<u>4,212,267</u>	<u>(241,556)</u>	<u>(7,140)</u>	<u>3,963,571</u>
Governmental Activities, capital assets, net	<u>\$ 7,062,170</u>	<u>\$ (241,556)</u>	<u>\$ (7,140)</u>	<u>\$ 6,813,474</u>



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

	<u>October 1, 2007</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>September 30, 2008</u>
<b>Business-type Activities:</b>				
<i>Electric Fund:</i>				
Nondepreciable capital assets:				
Land	\$ 16,775	\$ -	\$ -	\$ 16,775
Depreciable capital assets:				
Buildings and improvements	149,397	-	-	149,397
Utility system	5,200,315	-	(128,974)	5,071,341
Machinery and other equipment	218,941	35,100	(102,198)	151,843
Subtotal depreciable capital assets	5,568,653	35,100	(231,172)	5,372,581
Accumulated depreciation	(2,796,174)	(181,228)	209,650	(2,767,752)
Net capital assets being depreciated	2,772,479	(146,128)	(21,522)	2,604,829
Electric Fund, capital assets, net	2,789,254	(146,128)	(21,522)	2,621,604
<i>Sewer Fund:</i>				
Nondepreciable capital assets:				
Land	47,710	-	-	47,710
Depreciable capital assets:				
Buildings and improvements	4,940,195	-	(2,472)	4,937,723
Utility system	2,896,906	281,664	(42,525)	3,136,045
Machinery and equipment	182,601	-	(33,622)	148,979
Subtotal depreciable capital assets	8,019,702	281,664	(78,619)	8,222,747
Accumulated depreciation	(4,168,870)	(142,833)	78,619	(4,233,084)
Net capital assets being depreciated	3,850,832	138,831	-	3,989,663
Sewer Fund, capital assets, net	3,898,542	138,831	-	4,037,373
<i>Water Fund:</i>				
Nondepreciable capital assets:				
Land	1,966	-	-	1,966
Depreciable capital assets:				
Buildings and improvements	796,875	-	(5,822)	791,053
Utility system	2,617,308	69,751	(72,918)	2,614,141
Machinery and equipment	40,236	-	(29,831)	10,405
Subtotal depreciable capital assets	3,454,419	69,751	(108,571)	3,415,599
Accumulated depreciation	(1,576,626)	(69,488)	108,571	(1,537,543)
Net capital assets being depreciated	1,877,793	263	-	1,878,056
Water Fund, capital assets, net	1,879,759	263	-	1,880,022

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

	<u>October 1, 2007</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>September 30, 2008</u>
<b>Business-type Activities, continued:</b>				
<i>DART Fund:</i>				
Depreciable capital assets:				
Furniture and equipment	7,893	-	(2,041)	5,852
Vehicles	<u>146,637</u>	<u>165,003</u>	<u>(146,637)</u>	<u>165,003</u>
Subtotal depreciable capital assets	154,530	165,003	(148,678)	170,855
Accumulated depreciation	<u>(154,462)</u>	<u>(19,123)</u>	<u>148,678</u>	<u>(24,907)</u>
DART Fund, capital assets, net	<u>68</u>	<u>145,880</u>	<u>-</u>	<u>145,948</u>
Business-type Activities, capital assets, net	<u>\$ 8,567,623</u>	<u>\$ 138,846</u>	<u>\$ (21,522)</u>	<u>\$ 8,684,947</u>

Depreciation expense was charged to programs of the primary government as follows:

### Governmental Activities:

General government	\$ 37,679
Public safety	23,336
Public works	265,650
Recreation and culture	<u>10,796</u>
Total Governmental Activities	<u>\$ 337,461</u>

### Business-type Activities:

Electric	\$ 181,228
Sewer	142,833
Water	69,488
DART	<u>19,123</u>
Total Business-type Activities	<u>\$ 412,672</u>

# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

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### NOTE 6: DEFERRED REVENUE

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Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<i>Primary Government:</i>		
Loans	\$ 62,564	\$ -
Delinquent personal property taxes	13,915	
Program revenue received prior to meeting eligibility requirements	-	71,999
Property taxes collected in advance on 2008 levy	-	1,608,980
	<hr/>	<hr/>
Total	<u>\$ 76,479</u>	<u>\$ 1,680,979</u>
<i>Component Units:</i>		
Loans	\$ 52,724	\$ -
Property taxes collected in advance on 2008 levy	-	84,713
	<hr/>	<hr/>
Total	<u>\$ 52,724</u>	<u>\$ 84,713</u>

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### NOTE 7: LONG-TERM LIABILITIES

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The City may issue bonds and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

Long-term obligation activity for the year ended September 30, 2008 is summarized as follows:

	<i>Principal Maturity Ranges</i>	<i>October 1, 2007</i>	<i>Additions (Reductions)</i>	<i>September 30, 2008</i>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
General Obligation Limited Tax Bond - 1997 Building Authority Bonds for \$1,600,000, at 4.7-5.4% interest; Maturing through August 1, 2017	\$75,000-130,000	\$ 1,010,000	\$ (75,000)	\$ 935,000	\$ 80,000
2000 Installment Purchase - Land for \$500,000, at 7.0% interest; Maturing through December 1, 2015	33,079-49,642	311,690	(33,079)	278,611	35,394
2001 Promissory Note - Land Contract for \$800,000, at 8.0% interest Maturing through December 1, 2029	13,040-69,580	769,065	(13,040)	756,025	14,123
2001 Michigan Strategic Grant/Loan For \$400,000, at 0% interest; Maturing through May 1, 2011	25,383-25,384	203,068	(25,383)	177,685	25,384
2005 Promissory Note - Land Contract for \$90,000, at 8.5% interest Maturing through June 15, 2023	2,550-15,664	87,650	(2,550)	85,100	2,766
Compensated absences		392,378	35,947	428,325	-
Total Governmental Activities		<u>\$ 2,773,851</u>	<u>\$ (113,105)</u>	<u>\$ 2,660,746</u>	<u>\$ 157,667</u>
<b>Business-type Activities:</b>					
2000 Revenue bonds - 2000 Water and Sewer for \$1,955,000 (66.6513% Sewer; 33.3487% Water) at 4.85 to 5.65% interest; Maturing through 2021	\$75,000-165,000	\$ 1,585,000	\$ (75,000)	\$ 1,510,000	\$ 80,000
Compensated absences		84,656	12,871	97,527	-
Total Business-type Activities		<u>\$ 1,669,656</u>	<u>\$ (62,129)</u>	<u>\$ 1,607,527</u>	<u>\$ 80,000</u>

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

	<i>Principal Maturity Ranges</i>	<i>October 1, 2007</i>	<i>Additions (Reductions)</i>	<i>September 30, 2008</i>	<i>Due Within One Year</i>
<b>Component Units:</b>					
1994 DDA General obligation bonds - for \$620,000 at 5.65 to 6.00% interest; Maturing through 2010	\$55,000-65,000	\$ 180,000	\$ (55,000)	\$ 125,000	\$ 60,000
1997 DDA Limited Tax General obligation bonds for \$510,000 at 5.40 to 5.80% interest; Maturing through 2010	50,000-55,000	155,000	(50,000)	105,000	50,000
2007 Brownfield Development Authority Limited Tax General obligation bonds for \$810,000 at 3.85 to 4.59% interest; Maturing through 2028	25,000-60,000	810,000	-	810,000	25,000
Compensated absences		<u>21,156</u>	<u>2,764</u>	<u>23,920</u>	<u>-</u>
Total Component Units		<u>\$ 1,166,156</u>	<u>\$ (102,236)</u>	<u>\$ 1,063,920</u>	<u>\$ 135,000</u>

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<i>Year Ended September 30,</i>	<i>Primary Government</i>					
	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2009	\$ 157,667	\$ 133,783	\$ 291,450	\$ 80,000	\$ 78,935	\$ 158,935
2010	166,552	125,751	292,303	85,000	74,830	159,830
2011	175,728	117,112	292,840	90,000	70,455	160,455
2012	185,216	107,836	293,052	95,000	65,783	160,783
2013	200,041	97,785	297,826	100,000	60,760	160,760
2014-2018	754,660	332,180	1,086,840	595,000	215,124	810,124
2019-2023	229,066	198,400	427,466	465,000	40,430	505,430
2024-2028	275,631	94,839	370,470	-	-	-
2029-2030	87,860	4,758	92,618	-	-	-
	<u>\$ 2,232,421</u>	<u>\$ 1,212,444</u>	<u>\$ 3,444,865</u>	<u>\$ 1,510,000</u>	<u>\$ 606,317</u>	<u>\$ 2,116,317</u>
<i>Year Ended September 30,</i>	<i>Component Units</i>					
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>			
2009	\$ 135,000	\$ 45,831	\$ 180,831			
2010	150,000	38,246	188,246			
2011	30,000	31,906	61,906			
2012	30,000	30,707	60,707			
2013	30,000	29,506	59,506			
2014-2018	180,000	127,531	307,531			
2019-2023	215,000	87,394	302,394			
2024-2028	270,000	36,532	306,532			
	<u>\$ 1,040,000</u>	<u>\$ 427,653</u>	<u>\$ 1,467,653</u>			

# CITY OF DOWAGIAC

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

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### NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<i>Primary Government</i>		<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	
<b>Receivables:</b>			
Property taxes	\$ 194,541	\$ -	\$ -
Accounts	93,787	1,754,144	3,929
Notes	74,169	-	52,724
Accrued interest	78,761	61,112	-
Intergovernmental	216,339	61,241	-
Due from primary government	-	-	78,099
Advance to component unit	-	216,206	-
Total receivables	<u>\$ 657,597</u>	<u>\$ 2,092,703</u>	<u>\$ 134,752</u>
<b>Accounts payable and accrued expenses:</b>			
Accounts	\$ 110,801	\$ 669,392	\$ 2,747
Payroll and related liabilities	64,764	33,083	1,722
Accrued interest	26,541	26,972	20,191
Due to component unit	78,099	-	-
Deposits payable	1,827	104,895	-
Advance from primary government	-	-	216,206
Total accounts payable and accrued expenses	<u>\$ 282,032</u>	<u>\$ 834,342</u>	<u>\$ 240,866</u>

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### NOTE 9 – FEDERAL GRANTS

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During the year ended September 30, 2008, the City received and expended \$261,871 of Federal funds for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. Negotiated projects are projects where the City administers the grant and either performs the work or contracts it out. The City would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

# CITY OF DOWAGIAC

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### NOTE 10: INTERFUND BALANCES AND TRANSFERS

At September 30, 2008, there were no interfund receivables and payables.

The composition of interfund transfers at September 30, 2008 is as follows reported in the fund financial statements:

<u>Transfer To</u>	<u>Transfer from</u>							<u>Totals</u>
	<u>General Fund</u>	<u>Major Street</u>	<u>Depot</u>	<u>Capital Projects</u>	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	
<i>Nonmajor Governmental</i>								
Local Street	\$ -	\$ 44,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,000
Sidewalk replacement	5,000	-	-	-	-	-	-	5,000
Industrial development	-	-	-	-	-	-	67,739	67,739
Municipal Facilities	7,000	-	9,000	-	-	-	-	16,000
Debt Service	54,491	-	-	-	15,389	5,424	50,834	126,138
Sewer	-	55,779	-	-	-	-	-	55,779
Electric	-	-	-	13,701	-	-	-	13,701
Internal Service	244,855	-	-	-	-	-	-	244,855
Component Unit	59,106	-	-	-	-	-	63,000	122,106
	<u>\$370,452</u>	<u>\$ 99,779</u>	<u>\$ 9,000</u>	<u>\$ 13,701</u>	<u>\$ 15,389</u>	<u>\$ 5,424</u>	<u>\$181,573</u>	<u>\$ 695,318</u>

Interfund transfers reported in the government-wide statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Business-type activities	Governmental activities	\$ 69,906
Governmental activities	Component units	(59,106)
	Net transfers in Governmental Activities	<u>\$ 10,800</u>
Business-type activities	Component units	\$ 63,000
Governmental activities	Component units	59,106
	Net transfers in Primary Government	<u>\$ 122,106</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### NOTE 11: RISK MANAGEMENT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City manages its general liability, property, and auto risk/insurance by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing insurance coverage to its participating members. The City pays premiums to the Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk/insurance by participating in the Michigan Municipal League (MML), a public entity pool providing insurance coverage to its participating members. The City pays premiums to MML for the insurance coverage. The MML is self-sustaining through member premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its health and dental insurance by purchasing high deductible insurance from Blue Cross/Blue Shield and self-insuring the higher deductibles and prescription costs.

The City obtains its other insurance coverage through a commercial insurance company.

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### NOTE 12: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

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#### **Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):**

**Plan Description** – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's management and personnel policy. The required employee contribution rates and the City's actuarially determined rates for the fiscal year ended September 30, 2008 were as follows:

<i>Valuation Division</i>	<i>Provision</i>	<i>Employer Contribution Rate</i>	<i>Employee Contribution Rate</i>
General - Non-Union	B-2	6.85%	6.89%
Police	B-4	6.70%	8.65%
Fire	B-4	20.70%	9.17%
General Public Work	B-4	22.14%	8.11%
Department Heads	B-4	34.75%	6.51%
Police Sergeants	B-4	12.09%	8.20%



## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

**Annual Pension Costs** – For year ended September 30, 2008, the City's annual pension cost of \$382,420 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of September 30, follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost	\$ 382,420	\$ 279,482	\$ 279,473
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

### Funded Status –

<u>Actuarial Valuation Date</u>	<u>12/31/07</u>	<u>12/31/06</u>	<u>12/31/05</u>
Actuarial Value of Assets	\$ 8,550,159	\$ 8,178,435	\$ 7,838,569
Actuarial Accrued Liability (AAL)	14,699,371	14,140,852	13,496,922
Unfunded AAL (UAAL)	6,149,212	5,962,417	5,658,353
Funded Ratio	58%	58%	58%
Covered Payroll	2,459,950	2,399,160	2,362,575
UAAL as a percentage of covered payroll	250%	249%	239%

### Post Employment – Retiree Health Insurance Benefits:

The City has established a postemployment hospitalization insurance plan for employees retiring after October 1, 1984 who: (a) receive benefits under the City Retirement Plan; or (b) have attained age sixty (60) years but do not qualify to receive benefits under the City Retirement Plan although they have been employed by the City for a minimum of five (5) years. The plan currently covers 69 active employees and 15 retired employees.

The obligation to pay postemployment hospitalization insurance premium was established by the City Council. The obligation requires that the City reimburse any eligible employee an amount equal to 50% of any premium attributable to the employee only or up to a maximum of \$200 per month for all employees except police retirees who are reimbursed a maximum of \$275 per month until age 65 and then \$200 thereafter.

The City has chosen to advance-fund this obligation based on an actuarial valuation at October 1, 2005 (latest available report). Significant actuarial assumptions used include: (a) a rate of return on investment of 8% per year compounded annually, (b) projected salary increases of 4.5% per year.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

The required contribution, for retiree health insurance funding, for the year ended September 30, 2008 is \$52,617 and a contribution of \$52,617 has been made by the City.

The amount of net assets available in the Retiree Health Insurance Fund, a fiduciary fund, at September 30, 2008 is \$340,981. The amount of unfunded accrued liability at September 30, 2008, including the employee's share of the premium cost, is estimated to be approximately \$1,227,928 based on the latest available actuarial valuation (as of October 1, 2005).

**Upcoming Reporting Change** – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than the time the health care benefits are paid. The new pronouncement is effective for the year beginning October 1, 2009.

### **Deferred Compensation Plan:**

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

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### **NOTE 13: FUND EQUITY**

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Specific reservations on fund equity include:

***Reserved for prepaid expenditures*** – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

***Reserved for nonexpendable cemetery principal*** – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

Specific designations on fund equity include:

***Designated for Rudolphi Wildlife*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for Justice Training Funds*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for Girl Power*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for St. Deny's Cemetery*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

***Designated for Fine Art*** – This designation was created to indicate funds contributed to cover payment of associated expenditures.

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2008

### NOTE 14: COMPONENT UNITS REPORTING

A condensed Statement of Net Assets as September 30, 2008, and the Statement of Activities for the year then ended for each of the discretely presented component units follows:

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>STATEMENT OF NET ASSETS:</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,090	\$ 18,419	\$ 58,781	\$ 78,290
Receivables	16,803	117,949	-	134,752
Prepaid expenditures	-	1,372	-	1,372
Land held for development	458,382	-	-	458,382
Total assets	476,275	137,740	58,781	672,796
<b>Liabilities:</b>				
Accounts payable and accrued expenses	-	226,304	14,562	240,866
Deferred Revenue	23,417	61,296	-	84,713
Long-term liabilities				
Due within one year	-	110,000	25,000	135,000
Due in more than one year	-	143,920	785,000	928,920
Total liabilities	23,417	541,520	824,562	1,389,499
<b>Net assets:</b>				
Unrestricted (deficit)	\$ 452,858	\$ (403,780)	\$ (765,781)	\$ (716,703)
<b>STATEMENT OF ACTIVITIES:</b>				
Expenses - Community and economic development	\$ 32,000	\$ 159,421	\$ 34,846	\$ 226,267
Program revenues:				
Charges for services	-	43,966	-	43,966
Net expenses (revenues)	(32,000)	(115,455)	(34,846)	(182,301)
General revenues:				
Property taxes captured	51,895	156,724	-	208,619
Unrestricted investment earnings	44	3,563	-	3,607
Transfer from primary government	-	63,000	59,106	122,106
Total general revenues	51,939	223,287	59,106	334,332
Change in net assets	19,939	107,832	24,260	152,031
Net assets (deficit), beginning of year	216,713	(295,406)	(790,041)	(868,734)
Net assets (deficit), end of year	\$ 236,652	\$ (187,574)	\$ (765,781)	\$ (716,703)

***REQUIRED SUPPLEMENTAL INFORMATION***

# CITY OF DOWAGIAC

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended September 30, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
<b>Revenues:</b>				
Property taxes	\$ 1,813,383	\$ 1,781,088	\$ 1,792,585	\$ 11,497
Licenses and permits	72,100	101,600	102,651	1,051
Federal grants	-	14,934	14,934	-
State grants	757,675	745,203	754,370	9,167
Contributions from other units	276,021	287,740	239,603	(48,137)
Charges for services	538,171	533,987	542,205	8,218
Fines and forfeits	22,175	47,188	43,799	(3,389)
Interest and rents	102,657	113,564	106,627	(6,937)
Other revenue	39,640	65,563	73,437	7,874
Total revenues	<u>3,621,822</u>	<u>3,690,867</u>	<u>3,670,211</u>	<u>(20,656)</u>
<b>Expenditures:</b>				
Current				
General government	1,182,285	1,044,238	1,035,844	(8,394)
Public safety	1,807,975	1,675,607	1,662,778	(12,829)
Public works	60,689	84,024	80,435	(3,589)
Other	169,339	498,663	496,812	(1,851)
Capital outlay	<u>13,800</u>	<u>28,506</u>	<u>29,798</u>	<u>1,292</u>
Total expenditures	<u>3,234,088</u>	<u>3,331,038</u>	<u>3,305,667</u>	<u>(25,371)</u>
Excess (deficiency) of revenues over expenditures	<u>387,734</u>	<u>359,829</u>	<u>364,544</u>	<u>4,715</u>
<b>Other financing sources (uses):</b>				
Transfers to other funds	(311,346)	(311,346)	(311,346)	-
Transfers to component units	<u>-</u>	<u>(59,106)</u>	<u>(59,106)</u>	<u>-</u>
Total other financing sources (uses)	<u>(311,346)</u>	<u>(370,452)</u>	<u>(370,452)</u>	<u>-</u>
Net change in fund balance	76,388	(10,623)	(5,908)	4,715
Fund balance, beginning of year	<u>701,162</u>	<u>701,162</u>	<u>701,162</u>	<u>-</u>
Fund balance, end of year	<u>\$ 777,550</u>	<u>\$ 690,539</u>	<u>\$ 695,254</u>	<u>\$ 4,715</u>

***OTHER SUPPLEMENTAL INFORMATION***

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF REVENUES

Year Ended September 30, 2008

***Current Taxes:***

Property taxes	\$ 1,386,300
Penalties and interest on taxes	24,374
Administration fees	49,123
Payment in lieu of taxes	332,788
	<u>1,792,585</u>

***Licenses and permits:***

Business licenses and permits	222
Nonbusiness licenses and permits	61,569
CATV franchise fees	40,860
	<u>102,651</u>

***Federal grants:***

FEMA	<u>14,934</u>
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***State Grants:***

Liquor license fees	4,644
State revenue sharing - sales tax	746,226
Police	3,500
	<u>754,370</u>

***Contribution from other units:***

Contributions from county	145,091
Fire protection fees	83,717
Administration fees from Downtown Development Authority	10,795
	<u>239,603</u>

***Charges for services:***

Recreation fees	31,354
Cemetery fees	30,750
Police services and reports	15,722
Airport fees	28,903
Charges to other funds	435,476
	<u>542,205</u>

***Fines and forfeits:***

Ordinance fines	35,683
Other	8,116
	<u>43,799</u>

***Interest and rents:***

Interest	74,531
Rents	32,096
	<u>106,627</u>

***Other Revenue:***

Cemetery lots/perpetual care	9,890
Contributions and donations	10,000
Other	53,547
	<u>73,437</u>

Total revenues	<u><u>\$ 3,670,211</u></u>
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# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES

Year Ended September 30, 2008

**Expenditures:**

***General Government:***

*Council:*

Personnel	\$ 9,550
Fringe benefits	731
Dues and memberships	1,497
Education and training	8,626
Other	895
	<u>21,299</u>

*Manager:*

Personnel	120,386
Fringe benefits	38,911
Supplies	203
Contracted services	19,024
Telephone	453
Dues and memberships	354
Education and training	10,325
Other	355
	<u>190,011</u>

*Accounting/Finance/Treasurer:*

Personnel	180,957
Fringe benefits	43,375
Supplies	701
Contracted services	15,341
Dues and memberships	407
Education and training	184
Printing and publications	135
Other	117
	<u>241,217</u>

*Clerk:*

Personnel	97,422
Fringe benefits	10,271
Supplies	67
Contracted services	710
Dues and memberships	343
Education and training	2,246
Printing and publications	5,129
Other	516
	<u>116,704</u>



# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2008

**Expenditures, continued:**

***General Government, continued:***

*Assessor:*

Personnel	13,443
Fringe benefits	2,008
Contracted services	27,825
Telephone	249
Dues and memberships	324
Education and training	198
	<hr/>
	44,047

*Elections:*

Personnel	8,557
Supplies	1,701
Printing and publications	1,213
	<hr/>
	11,471

*Building and Grounds:*

Personnel	169,137
Fringe benefits	26,296
Supplies	38,062
Contracted services	26,444
Telephone	5,044
Education and training	225
Utilities	47,808
Repairs and maintenance	9,848
Equipment rental	37,373
Other	926
	<hr/>
	361,163

*Attorney:*

Contracted services	<hr/>
	45,861

*Cemetery:*

Contracted services	<hr/>
	4,071

Total general government	<hr/>
	1,035,844

***Public Safety:***

*Police:*

Personnel	941,586
Fringe benefits	171,355
Supplies	16,942
Contracted services	4,169
Telephone	4,786
Education and training	14,147
Printing and publications	1,124
Other	1,023
	<hr/>
	1,155,132

# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2008

**Expenditures, continued:**

***Public Safety, continued:***

*Fire:*

Personnel	245,248
Fringe benefits	46,033
Supplies	3,690
Contracted services	303
Telephone	1,517
Education and training	2,381
Utilities	15,487
Repairs and maintenance	6,852
Other	1,352
	<hr/>
	322,863

*Building Inspection Department:*

Personnel	95,158
Fringe benefits	30,891
Supplies	2,094
Contracted services	51,846
Telephone	1,538
Dues and memberships	672
Education and training	1,800
Printing and publications	481
Repairs and maintenance	100
Other	203
	<hr/>
	184,783

Total public safety	<hr/>	1,662,778
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***Public Works:***

*Sidewalks:*

Personnel	8,700
Fringe benefits	2,341
Repairs and maintenance	3,573
	<hr/>
	14,614

*Airport:*

Personnel	14,094
Fringe benefits	1,266
Supplies	28,873
Contracted services	7,695
Telephone	910
Insurance	8,250
Utilities	3,733
Other	1,000
	<hr/>
	65,821

Total public works	<hr/>	80,435
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# CITY OF DOWAGIAC

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## GENERAL FUND

### DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended September 30, 2008

**Expenditures, continued:**

***Other:***

Insurance and bonds	45,604
Employee benefits	434,001
Workers' compensation insurance	<u>17,207</u>
	<u>496,812</u>

***Capital Outlay:***

General government	6,094
Public safety	<u>23,704</u>
	<u>29,798</u>
	<u>3,305,667</u>

**Other Financing Uses:**

Transfers to other funds	311,346
Transfers to component units	<u>59,106</u>
	<u>370,452</u>

Total expenditures and other financing uses	<u>\$ 3,676,119</u>
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# CITY OF DOWAGIAC

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## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

September 30, 2008

	<i>Special Revenue Funds</i>				
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>
<b>Assets:</b>					
Cash and cash equivalents	\$ (50,989)	\$ 11,535	\$ 15,709	\$ 7,108	\$ 16,494
Investments	77,153	30,091	-	-	80,151
Accounts receivable	75	-	-	-	-
Notes receivable	-	-	-	-	-
Accrued interest receivable	1,744	404	-	-	1,929
Due from other governmental units	51,467	19,409	-	-	-
Due from component units	-	-	-	-	-
Prepaid expenditures	4,008	3,556	-	-	1,736
Total assets	<u>\$ 83,458</u>	<u>\$ 64,995</u>	<u>\$ 15,709</u>	<u>\$ 7,108</u>	<u>\$ 100,310</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 25,107	\$ 28,807	\$ -	\$ -	\$ 30
Accrued expenses	1,142	1,359	-	-	1,401
Deposits payable	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>26,249</u>	<u>30,166</u>	<u>-</u>	<u>-</u>	<u>1,431</u>
<b>Fund balances:</b>					
Reserved for:					
Prepaid expenditures	4,008	3,556	-	-	1,736
Debt service	-	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Unreserved:					
Special revenue funds	53,201	31,273	15,709	7,108	97,143
Capital projects fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total fund balances	<u>57,209</u>	<u>34,829</u>	<u>15,709</u>	<u>7,108</u>	<u>98,879</u>
Total liabilities and fund balances	<u>\$ 83,458</u>	<u>\$ 64,995</u>	<u>\$ 15,709</u>	<u>\$ 7,108</u>	<u>\$ 100,310</u>

<i>Special Revenue Funds</i>						
<i>Industrial</i>	<i>Streetscape</i>	<i>MSC</i>	<i>Municipal</i>	<i>City</i>		<i>Subtotal</i>
<i>Development</i>	<i>Maintenance</i>	<i>Rehabilitation</i>	<i>Facilities/</i>	<i>Drug</i>		<i>Nonmajor</i>
<i>Fund</i>	<i>Fund</i>	<i>Loan</i>	<i>Improvements</i>	<i>Forfeiture</i>	<i>Depot</i>	<i>Governmental</i>
<i>Fund</i>	<i>Fund</i>	<i>Repayment</i>	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Funds</i>
\$ 47,713	\$ 703	\$ 45,845	\$ 16,224	\$ 33,276	\$ 11,245	\$ 154,863
-	-	-	484,176	-	20,000	691,571
-	-	-	-	-	-	75
-	-	36,713	-	-	-	36,713
-	-	-	11,639	-	837	16,553
-	-	-	-	-	-	70,876
6,614	-	-	-	-	-	6,614
-	-	-	-	-	248	9,548
<u>\$ 54,327</u>	<u>\$ 703</u>	<u>\$ 82,558</u>	<u>\$ 512,039</u>	<u>\$ 33,276</u>	<u>\$ 32,330</u>	<u>\$ 986,813</u>
\$ -	\$ -	\$ 1,080	\$ 228	\$ -	\$ 11	\$ 55,263
-	-	-	-	-	-	3,902
-	-	-	1,300	-	-	1,300
-	-	36,713	-	-	-	36,713
-	-	37,793	1,528	-	11	97,178
-	-	-	-	-	248	9,548
-	-	-	-	-	-	-
-	-	-	-	-	-	-
54,327	703	44,765	510,511	33,276	32,071	880,087
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>54,327</u>	<u>703</u>	<u>44,765</u>	<u>510,511</u>	<u>33,276</u>	<u>32,319</u>	<u>889,635</u>
<u>\$ 54,327</u>	<u>\$ 703</u>	<u>\$ 82,558</u>	<u>\$ 512,039</u>	<u>\$ 33,276</u>	<u>\$ 32,330</u>	<u>\$ 986,813</u>

continued

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET, CONTINUED

Year Ended September 30, 2008

	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	<i>Permanent Funds</i>		
	<i>1997 Building Authority Bond Fund</i>	<i>M-51 South Commerical Development Fund</i>	<i>Health/ Dental Insurance Fund</i>	<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
<b>Assets:</b>					
Cash and cash equivalents	\$ 74,405	\$ 7,203	\$ 129,901	\$ 218,931	\$ 585,303
Investments	-	-	-	543,506	1,235,077
Accounts receivable	-	4,000	-	-	4,075
Notes receivable	-	25,851	-	-	62,564
Accrued interest receivable	-	-	-	9,358	25,911
Due from other governmental units	-	-	-	-	70,876
Due from component units	-	-	-	-	6,614
Prepaid expenditures	-	-	-	-	9,548
Total assets	<u>\$ 74,405</u>	<u>\$ 37,054</u>	<u>\$ 129,901</u>	<u>\$ 771,795</u>	<u>\$ 1,999,968</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 55,263
Accrued expenses	-	-	-	-	3,902
Deposits payable	-	-	-	-	1,300
Deferred revenue	-	25,851	26,312	-	88,876
Total liabilities	<u>-</u>	<u>25,851</u>	<u>26,312</u>	<u>-</u>	<u>149,341</u>
<b>Fund balances:</b>					
Reserved for:					
Prepaid expenditures	-	-	-	-	9,548
Debt service	74,405	-	-	-	74,405
Nonexpendable cemetery principal	-	-	-	771,795	771,795
Unreserved:					
Special revenue funds	-	-	-	-	880,087
Capital projects fund	-	11,203	-	-	11,203
Permanent fund	-	-	103,589	-	103,589
Total fund balances	<u>74,405</u>	<u>11,203</u>	<u>103,589</u>	<u>771,795</u>	<u>1,850,627</u>
Total liabilities and fund balances	<u>\$ 74,405</u>	<u>\$ 37,054</u>	<u>\$ 129,901</u>	<u>\$ 771,795</u>	<u>\$ 1,999,968</u>

# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2008

#### *Special Revenue Funds*

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Parks Fund</i>	<i>Sidewalk Replacement Fund</i>	<i>Solid Waste Disposal Fund</i>	<i>Industrial Development Fund</i>
<b>Revenues:</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 137,144	\$ -
Federal grants	261,871	-	-	-	-	-
State grants	413,862	135,480	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Interest and rents	1,877	1,906	-	9	4,451	145
Other revenue	3,114	2,395	-	693	1,457	5,248
Total revenues	680,724	139,781	-	702	143,052	5,393
<b>Expenditures:</b>						
Current						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	622,895	213,676	-	1,096	127,244	-
Community and economic development	-	-	-	-	-	1,608
Recreation and culture	-	-	250	-	-	-
Other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	38,423
Interest and fees	-	-	-	-	-	61,055
Total expenditures	622,895	213,676	250	1,096	127,244	101,086
Excess (deficiency) of revenues over expenditures	57,829	(73,895)	(250)	(394)	15,808	(95,693)
<b>Other financing sources (uses):</b>						
Transfers from other funds	-	44,000	-	5,000	-	67,739
Transfers to other funds	(99,779)	-	-	-	-	-
Total other financing sources (uses)	(99,779)	44,000	-	5,000	-	67,739
Net change in fund balance	(41,950)	(29,895)	(250)	4,606	15,808	(27,954)
Fund balances, beginning of year	99,159	64,724	15,959	2,502	83,071	82,281
Fund balances, end of year	\$ 57,209	\$ 34,829	\$ 15,709	\$ 7,108	\$ 98,879	\$ 54,327

*Special Revenue Funds*

<i>Streetscape Maintenance Fund</i>	<i>Police Athletic League Fund</i>	<i>MSC Rehabilitation Loan Repayment Fund</i>	<i>Municipal Facilities/ Improvements Fund</i>	<i>City Drug Forfeiture Fund</i>	<i>County Drug Forfeiture Fund</i>	<i>Depot Fund</i>	<i>Subtotal Nonmajor Governmental Fund</i>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 137,144
-	-	-	-	-	-	-	261,871
-	-	-	-	-	-	-	549,342
-	-	-	-	5,580	-	-	5,580
-	8	13	79,291	-	-	8,710	96,410
340	-	8,400	-	18,607	-	6,419	46,673
340	8	8,413	79,291	24,187	-	15,129	1,097,020
-	-	-	78,633	-	-	-	78,633
-	832	-	-	4,727	16,202	-	21,761
113	-	-	-	-	-	8,636	973,660
-	-	10,623	-	-	-	-	12,231
-	-	-	-	-	-	-	250
-	-	-	-	-	-	-	-
-	-	-	18,517	-	-	-	18,517
-	-	-	2,550	-	-	-	40,973
-	-	-	7,450	-	-	-	68,505
113	832	10,623	107,150	4,727	16,202	8,636	1,214,530
227	(824)	(2,210)	(27,859)	19,460	(16,202)	6,493	(117,510)
-	-	-	16,000	-	-	-	132,739
-	-	-	-	-	-	(9,000)	(108,779)
-	-	-	16,000	-	-	(9,000)	23,960
227	(824)	(2,210)	(11,859)	19,460	(16,202)	(2,507)	(93,550)
476	824	46,975	522,370	13,816	16,202	34,826	983,185
\$ 703	\$ -	\$ 44,765	\$ 510,511	\$ 33,276	\$ -	\$ 32,319	\$ 889,635

continued



# CITY OF DOWAGIAC

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended September 30, 2008

	<i>Debt Service Fund 1997 Building Authority Bond Fund</i>	<i>Capital Projects Fund M-51 South Commerical Development Fund</i>	<i>Permanent Funds</i>		<i>Total Nonmajor Governmental Funds</i>
			<i>Health/ Dental Insurance Fund</i>	<i>Cemetery Perpetual Care Fund</i>	
<b>Revenues:</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 137,144
Federal grants	-	-	-	-	261,871
State grants	-	-	-	-	549,342
Fines and forfeits	-	-	-	-	5,580
Interest and rents	1,098	2,689	2,801	14,180	117,178
Other revenue	-	7,221	256,395	18,120	328,409
Total revenues	1,098	9,910	259,196	32,300	1,399,524
<b>Expenditures:</b>					
Current					
General government	-	-	-	14,871	93,504
Public safety	-	-	-	-	21,761
Public works	-	-	-	-	973,660
Community and economic development	-	-	-	-	12,231
Recreation and culture	-	-	-	-	250
Other	-	-	232,974	-	232,974
Capital outlay	-	-	-	-	18,517
Debt service					
Principal	75,000	33,079	-	-	149,052
Interest and fees	51,025	21,818	-	-	141,348
Total expenditures	126,025	54,897	232,974	14,871	1,643,297
Excess (deficiency) of revenues over expenditures	(124,927)	(44,987)	26,222	17,429	(243,773)
<b>Other financing sources (uses):</b>					
Transfers from other funds	126,138	-	-	-	258,877
Transfers to other funds	-	(13,701)	-	-	(122,480)
Total other financing sources (uses)	126,138	(13,701)	-	-	136,397
Net change in fund balance	1,211	(58,688)	26,222	17,429	(107,376)
Fund balances, beginning of year	73,194	69,891	77,367	754,366	1,958,003
Fund balances, end of year	\$ 74,405	\$ 11,203	\$ 103,589	\$ 771,795	\$ 1,850,627

# CITY OF DOWAGIAC

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*PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS*  
**COMBINING STATEMENT OF NET ASSETS**  
 September 30, 2008

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Assets:</b>			
<b><i>Current assets:</i></b>			
Cash and cash equivalents	\$ 374,757	\$ 10,532	\$ 385,289
Investments	792,375	-	792,375
Accounts receivable	9,283	-	9,283
Notes receivable	11,605	-	11,605
Accrued interest receivable	10,103	-	10,103
Prepaid expenses	10,169	-	10,169
Total current assets	<u>1,208,292</u>	<u>10,532</u>	<u>1,218,824</u>
<b><i>Noncurrent assets:</i></b>			
Capital assets:			
Depreciable capital assets, net	<u>815,900</u>	<u>73,025</u>	<u>888,925</u>
Total assets	<u>2,024,192</u>	<u>83,557</u>	<u>2,107,749</u>
<b>Liabilities:</b>			
<b><i>Current liabilities:</i></b>			
Accounts payable	33,847	981	34,828
Accrued expenses	<u>1,553</u>	<u>-</u>	<u>1,553</u>
Total current liabilities	<u>35,400</u>	<u>981</u>	<u>36,381</u>
<b><i>Noncurrent liabilities:</i></b>			
Compensated absences payable	<u>3,090</u>	<u>-</u>	<u>3,090</u>
Total liabilities	<u>38,490</u>	<u>981</u>	<u>39,471</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	815,900	73,025	888,925
Unrestricted	<u>1,169,802</u>	<u>9,551</u>	<u>1,179,353</u>
Total net assets	<u>\$ 1,985,702</u>	<u>\$ 82,576</u>	<u>\$ 2,068,278</u>

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended September 30, 2008

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Operating revenues:</b>			
Equipment rental	\$ 351,176	\$ 64,471	\$ 415,647
Other	25,992	-	25,992
Total operating revenues	<u>377,168</u>	<u>64,471</u>	<u>441,639</u>
<b>Operating expenses:</b>			
Personnel	39,154	-	39,154
Fringe benefits	20,221	-	20,221
Supplies	125,575	9,716	135,291
Contracted services	5,158	24,128	29,286
Administrative expense	15,463	-	15,463
Insurance	32,448	-	32,448
Utilities	15,989	-	15,989
Repairs and maintenance	112,844	-	112,844
Equipment rental	4,507	-	4,507
Other services and supplies	5,916	21,902	27,818
Depreciation	<u>176,897</u>	<u>25,785</u>	<u>202,682</u>
Total operating expenses	<u>554,172</u>	<u>81,531</u>	<u>635,703</u>
Operating income (loss)	<u>(177,004)</u>	<u>(17,060)</u>	<u>(194,064)</u>
<b>Non-operating revenues (expenses):</b>			
Loss on disposal of capital assets	(7,140)	-	(7,140)
Proceeds from sale of capital assets	3,000	-	3,000
Interest income	<u>30,582</u>	<u>1,307</u>	<u>31,889</u>
Total non-operating revenues (expenses)	<u>26,442</u>	<u>1,307</u>	<u>27,749</u>
Net income (loss) before operating transfers	<u>(150,562)</u>	<u>(15,753)</u>	<u>(166,315)</u>
<b>Transfer from other funds</b>	<u>244,855</u>	<u>-</u>	<u>244,855</u>
Net income (loss)	94,293	(15,753)	78,540
Net assets, beginning of year	<u>1,891,409</u>	<u>98,329</u>	<u>1,989,738</u>
Net assets, end of year	<u>\$ 1,985,702</u>	<u>\$ 82,576</u>	<u>\$ 2,068,278</u>

# CITY OF DOWAGIAC

## PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2008

	<i>Motor Pool Equipment Fund</i>	<i>Computer Equipment Replacement Fund</i>	<i>Total Internal Service Funds</i>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ (77)	\$ 64,471	\$ 64,394
Cash received for interfund services	377,168	-	377,168
Cash payments for interfund services	(19,970)	-	(19,970)
Cash payments to employees	(41,844)	-	(41,844)
Cash payments to suppliers for goods and services	<u>(300,448)</u>	<u>(55,465)</u>	<u>(355,913)</u>
Net cash provided (used) by operating activities	<u>14,829</u>	<u>9,006</u>	<u>23,835</u>
<b>Cash flows from non-capital financing activities:</b>			
Transfers in	<u>244,855</u>	<u>-</u>	<u>244,855</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from sale of assets	3,000	-	3,000
Acquisition and construction of capital assets	<u>(59,597)</u>	<u>(17,791)</u>	<u>(77,388)</u>
Net cash provided by capital and related financing activities	<u>(56,597)</u>	<u>(17,791)</u>	<u>(74,388)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>30,582</u>	<u>1,307</u>	<u>31,889</u>
Net increase (decrease) in cash and cash equivalents	233,669	(7,478)	226,191
Cash, cash equivalents, and investments, beginning of year	<u>933,463</u>	<u>18,010</u>	<u>951,473</u>
Cash, cash equivalents, and investments, end of year	<u>\$ 1,167,132</u>	<u>\$ 10,532</u>	<u>\$ 1,177,664</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (177,004)	\$ (17,060)	\$ (194,064)
Adjustments:			
Depreciation	176,897	25,785	202,682
Change in assets and liabilities:			
Accounts receivable	(1,900)	-	(1,900)
Notes receivable	(3,015)	-	(3,015)
Accrued interest receivable	4,329	-	4,329
Due from other governmental units	509	-	509
Prepaid expenses	(8,864)	-	(8,864)
Accounts payable	26,046	281	26,327
Accrued expenses	521	-	521
Compensated absences payable	<u>(2,690)</u>	<u>-</u>	<u>(2,690)</u>
Net cash provided (used) by operating activities	<u>\$ 14,829</u>	<u>\$ 9,006</u>	<u>\$ 23,835</u>

*COMPONENT UNITS*  
**COMBINING BALANCE SHEET**  
 Year Ended September 30, 2008

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,090	\$ 18,419	\$ 58,781	\$ 78,290
Accounts receivable	-	3,929	-	3,929
Notes receivable	-	52,724	-	52,724
Due from primary government	23,417	61,296	-	84,713
Prepaid expenditures	-	1,372	-	1,372
Land held for development	458,382	-	-	458,382
	<u>\$ 482,889</u>	<u>\$ 137,740</u>	<u>\$ 58,781</u>	<u>\$ 679,410</u>
Total assets	<u>\$ 482,889</u>	<u>\$ 137,740</u>	<u>\$ 58,781</u>	<u>\$ 679,410</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ 2,747	\$ -	\$ 2,747
Accrued expenses	-	1,722	-	1,722
Due to primary government	6,614	-	-	6,614
Advance from primary government	216,206	-	-	216,206
Deferred revenue	23,417	114,020	-	137,437
	<u>246,237</u>	<u>118,489</u>	<u>-</u>	<u>364,726</u>
Total liabilities	<u>246,237</u>	<u>118,489</u>	<u>-</u>	<u>364,726</u>
<b>Fund Balances:</b>				
Reserved for:				
Prepaid expenditures	-	1,372	-	1,372
Unreserved				
Designated	-	1,757	-	1,757
Undesignated	236,652	16,122	58,781	311,555
	<u>236,652</u>	<u>19,251</u>	<u>58,781</u>	<u>314,684</u>
Total fund balances	<u>236,652</u>	<u>19,251</u>	<u>58,781</u>	<u>314,684</u>
Total liabilities and fund balances	<u>\$ 482,889</u>	<u>\$ 137,740</u>	<u>\$ 58,781</u>	<u>\$ 679,410</u>

## COMPONENT UNITS

### RECONCILIATION OF FUND BALANCES OF THE COMPONENT UNITS TO NET ASSETS OF COMPONENT UNITS ACTIVITIES

Year Ended September 30, 2008

#### RECONCILIATION OF FUND BALANCES TO NET ASSETS:

Total fund balances for component units		\$	314,684
Total net assets reported for component units in the statement of of net assets is different because:			
Interest payable in the component units activities are not payable from current resources and therefore are not reported in the component units funds.			(20,191)
Deferred revenues reported in the component units funds are recognized as revenues for the component units activities.			
Loans			52,724
Long-term liabilities are not due and payable in the current year and therefore are not reported in the component units funds.			
Bonds payable	(1,040,000)		
Compensated absences payable	<u>(23,920)</u>		<u>(1,063,920)</u>
Net assets (deficit) of components units		\$	<u><u>(716,703)</u></u>

# CITY OF DOWAGIAC

## COMPONENT UNITS

### COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2008

	<i>Local Development Finance Authority</i>	<i>Downtown Development Authority</i>	<i>Brownfield Redevelopment Authority</i>	<i>Total Component Units</i>
<b>Revenues:</b>				
Property taxes	\$ 51,895	\$ 156,724	\$ -	\$ 208,619
Interest and rents	44	3,563	-	3,607
Other revenue	-	47,146	-	47,146
Total revenues	<u>51,939</u>	<u>207,433</u>	<u>-</u>	<u>259,372</u>
<b>Expenditures:</b>				
Current				
Community and economic development	32,000	140,683	-	172,683
Debt service				
Principal	-	105,000	-	105,000
Interest and fees	-	18,481	37,273	55,754
Total expenditures	<u>32,000</u>	<u>264,164</u>	<u>37,273</u>	<u>333,437</u>
Excess (deficiency) of revenues over expenditures	19,939	(56,731)	(37,273)	(74,065)
<b>Other financing sources (uses):</b>				
Transfers from primary government	-	63,000	59,106	122,106
Net change in fund balance	19,939	6,269	21,833	48,041
Fund balances, beginning of year	<u>216,713</u>	<u>12,982</u>	<u>36,948</u>	<u>266,643</u>
Fund balances, end of year	<u>\$ 236,652</u>	<u>\$ 19,251</u>	<u>\$ 58,781</u>	<u>\$ 314,684</u>

## COMPONENT UNITS

### RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2008

#### RECONCILIATION OF CHANGE IN FUND BALANCES TO CHANGE IN NET ASSETS:

<b>Net change in fund balances for the component units</b>	\$	48,041
Total change in net assets reported for component units in the statement of activities is different because:		
Collection of certain items recorded as deferred revenue are considered current financial resources in the component units funds. In the statement of activities, these items have been recorded as revenue in previous years.		
Notes proceeds		(3,180)
Repayments of principal on long-term obligations are expenditures in component units funds but the payments reduce long-term liabilities in the statement of net assets.		
		105,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in component units funds.		
Change in compensated absences payable	(2,764)	
Change in accrued interest on bonds	<u>4,934</u>	<u>2,170</u>
<b>Change in net assets of component units</b>	\$	<u><u>152,031</u></u>



# CITY OF DOWAGIAC

## FIDUCIARY FUNDS

### COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended September 30, 2008

	<i>October 1, 2007</i>	<i>Additions</i>	<i>Deductions</i>	<i>September 30, 2008</i>
<i>County, School, and Library Tax Fund</i>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 304,202	\$ 2,800,051	\$ 2,643,813	\$ 460,440
<b>Liabilities:</b>				
Undistributed property tax collections	\$ 304,202	\$ 2,800,051	\$ 2,643,813	\$ 460,440
<i>Payroll Fund</i>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 8,244	\$ 1,817,625	\$ 1,816,565	\$ 9,304
<b>Liabilities:</b>				
Accrued expenses	\$ 8,244	\$ 1,817,625	\$ 1,816,565	\$ 9,304
<i>Fire Insurance Escrow Fund</i>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 7,594	\$ 4,554	\$ 11,854	\$ 294
<b>Liabilities:</b>				
Accounts payable	\$ 7,594	\$ 4,554	\$ 11,854	\$ 294
<i>FEMA Fire Grant Fund</i>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 68,294	\$ 112,797	\$ 181,091	\$ -
<b>Liabilities:</b>				
Undistributed grant proceeds	\$ 68,294	\$ 112,797	\$ 181,091	\$ -
<i>Total Agency Funds</i>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 388,334	\$ 4,735,027	\$ 4,653,323	\$ 470,038
<b>Liabilities:</b>				
Accounts payable	\$ 7,594		\$ 11,854	\$ 294
Accrued expenses	8,244	1,817,625	1,816,565	9,304
Undistributed grant proceeds	68,294	112,797	181,091	-
Undistributed property tax collections	304,202	2,800,051	2,643,813	460,440
Total liabilities	\$ 388,334	\$ 4,730,473	\$ 4,653,323	\$ 470,038

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 1997 GENERAL OBLIGATION LIMITED TAX BUILDING AUTHORITY BONDS

Issue dated February 1, 1997 in the amount of	\$	1,600,000
Less:		
Principal paid in prior years		(590,000)
Principal paid in current year		<u>(75,000)</u>
Balance payable at September 30, 2008	\$	<u>935,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	5.00%	\$ 47,075	\$ 80,000	\$ 127,075
2010	5.05%	42,929	85,000	127,929
2011	5.15%	38,465	90,000	128,465
2012	5.20%	33,678	95,000	128,678
2013	5.25%	28,451	105,000	133,451
2014	5.30%	22,780	110,000	132,780
2015	5.30%	16,817	115,000	131,817
2016	5.40%	10,395	125,000	135,395
2017	5.40%	<u>3,509</u>	<u>130,000</u>	<u>133,509</u>
		<u>\$ 244,099</u>	<u>\$ 935,000</u>	<u>\$ 1,179,099</u>

Interest on the above is payable semi-annually at the indicated rate on August 1 and February 1.

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 2000 INSTALLMENT PURCHASE NOTE PAYABLE - LAND PURCHASE

Contract dated March 23, 2000 in the amount of	\$	500,000
Less:		
Principal paid in prior years		(188,310)
Principal paid in current year		<u>(33,079)</u>
Balance payable at September 30, 2008	\$	<u>278,611</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2009	7.00%	\$ 19,503	\$ 35,394	\$ 54,897
2010	7.00%	17,025	37,872	54,897
2011	7.00%	14,374	40,523	54,897
2012	7.00%	11,537	43,360	54,897
2013	7.00%	8,502	46,395	54,897
2014	7.00%	5,255	49,642	54,897
2015	7.00%	<u>1,780</u>	<u>25,425</u>	<u>27,205</u>
		<u>\$ 77,976</u>	<u>\$ 278,611</u>	<u>\$ 356,587</u>

Interest and principal is paid annually on December 1.

# CITY OF DOWAGIAC

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*GOVERNMENTAL ACTIVITIES*  
**SCHEDULE OF INDEBTEDNESS**  
September 30, 2008

**2001 PROMISSORY NOTE PAYABLE - LAND CONTRACT**

Contract dated December 14, 2001 in the amount o \$	800,000
Less: Principal paid in prior years	(30,935)
Principal paid in current year	<u>(13,040)</u>
Balance payable at September 30, 2008	<u>\$ 756,025</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	8.00%	\$ 59,971	\$ 14,123	\$ 74,094
2010	8.00%	58,799	15,295	74,094
2011	8.00%	57,530	16,564	74,094
2012	8.00%	56,155	17,939	74,094
2013	8.00%	54,666	19,428	74,094
2014	8.00%	53,053	21,041	74,094
2015	8.00%	51,307	22,787	74,094
2016	8.00%	49,416	24,678	74,094
2017	8.00%	47,367	26,727	74,094
2018	8.00%	45,149	28,945	74,094
2019	8.00%	42,746	31,348	74,094
2020	8.00%	40,145	33,949	74,094
2021	8.00%	37,327	36,767	74,094
2022	8.00%	34,275	39,819	74,094
2023	8.00%	30,970	43,124	74,094
2024	8.00%	27,391	46,703	74,094
2025	8.00%	23,515	50,579	74,094
2026	8.00%	19,317	54,777	74,094
2027	8.00%	14,770	59,324	74,094
2028	8.00%	9,846	64,248	74,094
2029	8.00%	4,514	69,580	74,094
2030	8.00%	<u>244</u>	<u>18,280</u>	<u>18,524</u>
		<u>\$ 818,473</u>	<u>\$ 756,025</u>	<u>\$ 1,574,498</u>

Interest and principal is paid monthly.

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 2001 MICHIGAN STRATEGIC LOAN

Grant dated October 19, 2000 in the amount of	\$	400,000
Less:		
Principal paid in prior years		(196,932)
Principal paid in current year		<u>(25,383)</u>
Balance payable at September 30, 2008	\$	<u>177,685</u>

Balance payable as follows:

<i>Fiscal</i> <i>Year Ended</i>	<i>Interest</i> <i>Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total</i> <i>Annual</i> <i>Requirement</i>
2009	0.00%	\$ -	\$ 25,384	\$ 25,384
2010	0.00%	-	25,383	25,383
2011	0.00%	-	25,384	25,384
2012	0.00%	-	25,383	25,383
2013	0.00%	-	25,384	25,384
2014	0.00%	-	25,383	25,383
2015	0.00%	-	25,384	25,384
		<u>\$ -</u>	<u>\$ 177,685</u>	<u>\$ 177,685</u>

Principal is paid quarterly on November 1, February 1, May 1, and August 1.

# CITY OF DOWAGIAC

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 2005 PROMISSORY NOTE PAYABLE - LAND CONTRACT

Contract dated June 15, 2006 in the amount of	\$	90,000
Less:		
Principal paid in prior years		(2,350)
Principal paid in current year		<u>(2,550)</u>
Balance payable at September 30, 2008	\$	<u>85,100</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	8.50%	\$ 7,234	\$ 2,766	\$ 10,000
2010	8.50%	6,998	3,002	10,000
2011	8.50%	6,743	3,257	10,000
2012	8.50%	6,466	3,534	10,000
2013	8.50%	6,166	3,834	10,000
2014	8.50%	5,840	4,160	10,000
2015	8.50%	5,487	4,513	10,000
2016	8.50%	5,103	4,897	10,000
2017	8.50%	4,687	5,313	10,000
2018	8.50%	4,235	5,765	10,000
2019	8.50%	3,745	6,255	10,000
2020	8.50%	3,213	6,787	10,000
2021	8.50%	2,636	7,364	10,000
2022	8.50%	2,011	7,989	10,000
2023	8.50%	1,332	15,664	16,996
		<u>\$ 71,896</u>	<u>\$ 85,100</u>	<u>\$ 156,996</u>

# CITY OF DOWAGIAC

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## *BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS*

### **SCHEDULE OF INDEBTEDNESS**

September 30, 2008

#### **2000 WATER and SEWER REVENUE BONDS**

Issue dated June 1, 2000 in the amount of	\$	1,955,000
Less:		
Principal paid in prior years		(370,000)
Principal paid in current year		<u>(75,000)</u>
Balance payable at September 30, 2008	\$	<u><u>1,510,000</u></u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	4.95%	\$ 78,935	\$ 80,000	\$ 158,935
2010	5.00%	74,830	85,000	159,830
2011	5.00%	70,455	90,000	160,455
2012	5.10%	65,783	95,000	160,783
2013	5.20%	60,760	100,000	160,760
2014	5.30%	55,378	105,000	160,378
2015	5.35%	49,653	110,000	159,653
2016	5.40%	43,470	120,000	163,470
2017	5.40%	36,855	125,000	161,855
2018	5.50%	29,768	135,000	164,768
2019	5.50%	22,068	145,000	167,068
2020	5.65%	13,701	155,000	168,701
2021	5.65%	4,661	165,000	169,661
		<u>\$ 606,317</u>	<u>\$ 1,510,000</u>	<u>\$ 2,116,317</u>

Interest on the above is payable semi-annually at the indicated rate on December 1 and June 1.

The 2000 Water and Sewer Revenue Bonds are allocated to the Enterprise Funds as follows:

Sewer Fund	66.6513%	\$ 1,006,434
Water Fund	33.3487%	<u>503,566</u>
		<u>\$ 1,510,000</u>

# CITY OF DOWAGIAC

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## COMPONENT UNITS

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 1994 DOWNTOWN DEVELOPMENT AUTHORITY GENERAL OBLIGATION BONDS

Issue dated July 1, 1994 in the amount of	\$	620,000
Less:		
Principal paid in prior years		(440,000)
Principal paid in current year		<u>(55,000)</u>
Balance payable at September 30, 2008	\$	<u>125,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	5.95%	\$ 5,685	\$ 60,000	\$ 65,685
2010	6.00%	<u>1,950</u>	<u>65,000</u>	<u>66,950</u>
		<u>\$ 7,635</u>	<u>\$ 125,000</u>	<u>\$ 132,635</u>

#### 1997 LIMITED TAX GENERAL OBLIGATION DOWNTOWN DEVELOPMENT BONDS

Issue dated April 1, 1997 in the amount of	\$	510,000
Less:		
Principal paid in prior years		(355,000)
Principal paid in current year		<u>(50,000)</u>
Balance payable at September 30, 2008	\$	<u>105,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	5.70%	\$ 6,040	\$ 50,000	\$ 56,040
2010	5.80%	<u>3,190</u>	<u>55,000</u>	<u>58,190</u>
		<u>\$ 9,230</u>	<u>\$ 105,000</u>	<u>\$ 114,230</u>

Interest on the above is payable semi-annually at the indicated rate on November 1 and May 1.



# CITY OF DOWAGIAC

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## COMPONENT UNITS

### SCHEDULE OF INDEBTEDNESS

September 30, 2008

#### 2007 BROWNFIELD REDEVELOPMENT AUTHORITY TAX INCREMENT BONDS

Issue dated April 1, 2007 in the amount of	\$	810,000
Less:		
Principal paid in prior years		-
Principal paid in current year		<u>-</u>
Balance payable at September 30, 2008	\$	<u>810,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due</i>	<i>Principal due</i>	<i>Total Annual Requirement</i>
2009	4.000%	\$ 34,106	\$ 25,000	\$ 59,106
2010	4.000%	33,106	30,000	63,106
2011	4.000%	31,906	30,000	61,906
2012	4.000%	30,707	30,000	60,707
2013	4.000%	29,506	30,000	59,506
2014	4.000%	28,306	35,000	63,306
2015	4.000%	26,906	35,000	61,906
2016	4.000%	25,507	35,000	60,507
2017	4.000%	24,106	35,000	59,106
2018	4.250%	22,706	40,000	62,706
2019	4.250%	21,006	40,000	61,006
2020	4.250%	19,307	40,000	59,307
2021	4.250%	17,606	45,000	62,606
2022	4.250%	15,694	45,000	60,694
2023	4.375%	13,781	45,000	58,781
2024	4.375%	11,813	50,000	61,813
2024	4.375%	9,625	50,000	59,625
2026	4.375%	7,438	55,000	62,438
2027	4.375%	5,031	55,000	60,031
2028	4.375%	<u>2,625</u>	<u>60,000</u>	<u>62,625</u>
		\$ 410,788	\$ 810,000	\$ 1,220,788

Interest on the above is payable semi-annually at the indicated rates on November 1 and May 1.

# CITY OF DOWAGIAC

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## *DART FUND*

### **SCHEDULE OF OPERATING REVENUES**

Year Ended September 30, 2008

**Operating revenues:**

Demand responses - fares	\$ 26,677
Other nontransportation revenues	<u>1,624</u>
Total operating revenues	<u>\$ 28,301</u>

# CITY OF DOWAGIAC

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## DART FUND

### SCHEDULE OF OPERATING EXPENSES

Year Ended September 30, 2008

	<u>Operation</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
<b>Labor:</b>				
Operators' salaries	\$ 40,771	\$ -	\$ -	\$ 40,771
Other salaries	-	6,290	17,479	23,769
Dispatcher	26,123	-	-	26,123
<b>Fringe benefits:</b>				
Other	42,457	481	1,337	44,275
Pension	4,546	-	-	4,546
<b>Services:</b>				
Advertising	-	-	42	42
Audit	-	-	2,069	2,069
City administration	-	10,584	-	10,584
Other services	-	3,363	-	3,363
<b>Materials and supplies consumed:</b>				
Fuels and lubricants	19,672	-	-	19,672
Tires and tubes	817	-	-	817
Other materials and supplies	1,970	7,450	-	9,420
<b>Utilities:</b>				
Telephone	869	-	-	869
<b>Insurance:</b>				
Casualty and liability insurance	3,116	-	346	3,462
<b>Rental:</b>				
Building/office	2,383	-	7,722	10,105
<b>Depreciation</b>	19,123	-	-	19,123
<b>Miscellaneous expenses:</b>				
Other	1,097	349	563	2,009
Total operating expenses	<u>\$ 162,944</u>	<u>\$ 28,517</u>	<u>\$ 29,558</u>	<u>\$ 221,019</u>

# CITY OF DOWAGIAC

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## *DART FUND*

### **SCHEDULE OF NON-OPERATING REVENUES**

Year Ended September 30, 2008

**Local revenues:**

City of Dowagiac - property taxes	\$ 48,973
Proceeds from sale of capital assets	5,800
	<u>54,773</u>

**State of Michigan operating grants:**

Formula operating assistance	70,125
Grant for buses	33,000
Fiscal year 2004 reconciliation adjustment	670
Fiscal year 2005 reconciliation adjustment	990
Fiscal year 2007 reconciliation adjustment	4,217
	<u>109,002</u>

**Federal operating grant:**

Federal Section 5311 - operating assistance	31,193
Grant for buses	132,002
	<u>163,195</u>

**Interest:**

Interest	<u>8,617</u>
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Total non-operating revenues	<u><u>\$ 335,587</u></u>
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*DART FUND***SCHEDULE OF NET ELIGIBLE COSTS COMPUTATION  
OF GENERAL OPERATIONS**

Year Ended September 30, 2008

	<i>Federal Section 5311</i>	<i>State Operating Assistance</i>
<b>Expenses:</b>		
Labor	\$ 90,663	\$ 90,663
Fringe benefits	48,821	48,821
Services	16,058	16,058
Materials and supplies consumed	29,909	29,909
Telephone	869	869
Casualty and liability insurance	3,462	3,462
Building and office rental	10,105	10,105
Depreciation	19,123	19,123
Miscellaneous expenses	2,009	2,009
Total expenses	<u>221,019</u>	<u>221,019</u>
<b>Ineligible expenses:</b>		
Audit	(2,069)	-
Depreciation on assets purchased with federal and/or state funds	<u>(19,123)</u>	<u>(19,123)</u>
Total ineligible expenses	<u>(21,192)</u>	<u>(19,123)</u>
Net eligible expenses	<u>\$ 199,827</u>	<u>\$ 201,896</u>
Net deficit - Section 5311	<u>\$ 199,827</u>	
Eligible Section 5311 reimbursement (16.00%)	<u>\$ 31,972</u>	
Eligible for state operating assistance:		
Maximum state operating assistance:		
Lesser of 36.1508% of expenses eligible for state operating assistance or the City's prorated share of available funds.		
36.1508% of eligible expenses		<u>\$ 72,987</u>
But at least a minimum of its 1997 floor of		<u>\$ 55,299</u>

# CITY OF DOWAGIAC

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## *DART FUND*

### **SCHEDULE OF DETAIL OF INELIGIBLE EXPENSES**

Year Ended September 30, 2008

	<u><i>Amount Ineligible</i></u>
Audit	\$ 2,069
Depreciation associated with an asset purchased with federal and/or state funds is not eligible:	
Computer	68
Buses	<u>19,055</u>
Total ineligible expenses	<u><u>\$ 21,192</u></u>

# CITY OF DOWAGIAC

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## DART FUND

### SCHEDULE OF MILEAGE, VEHICLE HOURS, AND PASSENGER DATA

Year Ended September 30, 2008

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours, and number of passengers transported for the year ended September 30, 2007 are as follows:

#### MILEAGE:

	<i>Vehicle Miles</i>
Demand - Response	
1st quarter	10,629
2nd quarter	10,501
3rd quarter	10,931
4th quarter	<u>10,698</u>
Total mileage	<u><u>42,759</u></u>

#### VEHICLE HOURS AND PASSENGERS:

	<i>Vehicle Hours</i>	<i>Regular Passengers</i>	<i>Senior Passengers</i>	<i>Handicapped Passengers</i>	<i>Senior Handicapped Passengers</i>
Demand - Response					
1st quarter	1,134	3,840	1,467	541	478
2nd quarter	1,106	4,715	1,460	558	487
3rd quarter	1,152	3,506	1,617	714	602
4th quarter	<u>1,152</u>	<u>2,379</u>	<u>1,638</u>	<u>764</u>	<u>574</u>
	<u><u>4,544</u></u>	<u><u>14,440</u></u>	<u><u>6,182</u></u>	<u><u>2,577</u></u>	<u><u>2,141</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

The City is not using derivative instruments in any of its funds or pension portfolios.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of City Council  
City of Dowagiac, Michigan

We have audited the financial statements of the City of Dowagiac as of and for the year ended September 30, 2008, and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Dowagiac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follows:



## **Recording, Processing and Summarizing Accounting Data**

- Criteria:** All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.
- Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.
- Cause:** This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.
- Effect:** As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Dowagiac's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Bertchkaume & Co.*

Saginaw, Michigan  
November 6, 2008



## **REQUIRED COMMUNICATION TO THE CITY OF DOWAGIAC IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the City Council  
City of Dowagiac

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dowagiac for the year ended September 30, 2008, and have issued our report thereon dated November 6, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated February 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Dowagiac are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

**Disclosures**

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 6, 2008.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Internal Control Matters**

In planning and performing our audit of the financial statements of the City of Dowagiac as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Dowagiac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

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This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Berthiaume & Co.*

Berthiaume & Company  
Certified Public Accountants  
Saginaw, Michigan

November 6, 2008